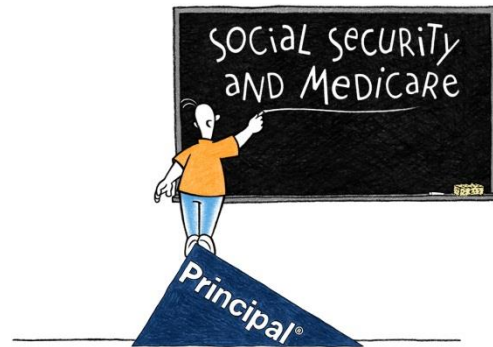


# Medicare — What Your Clients Don't Know Could Cost Them

**Joe Moklebust, CRPC®**  
**Director of Business Development**  
**Principal Funds Distributor, Inc.**

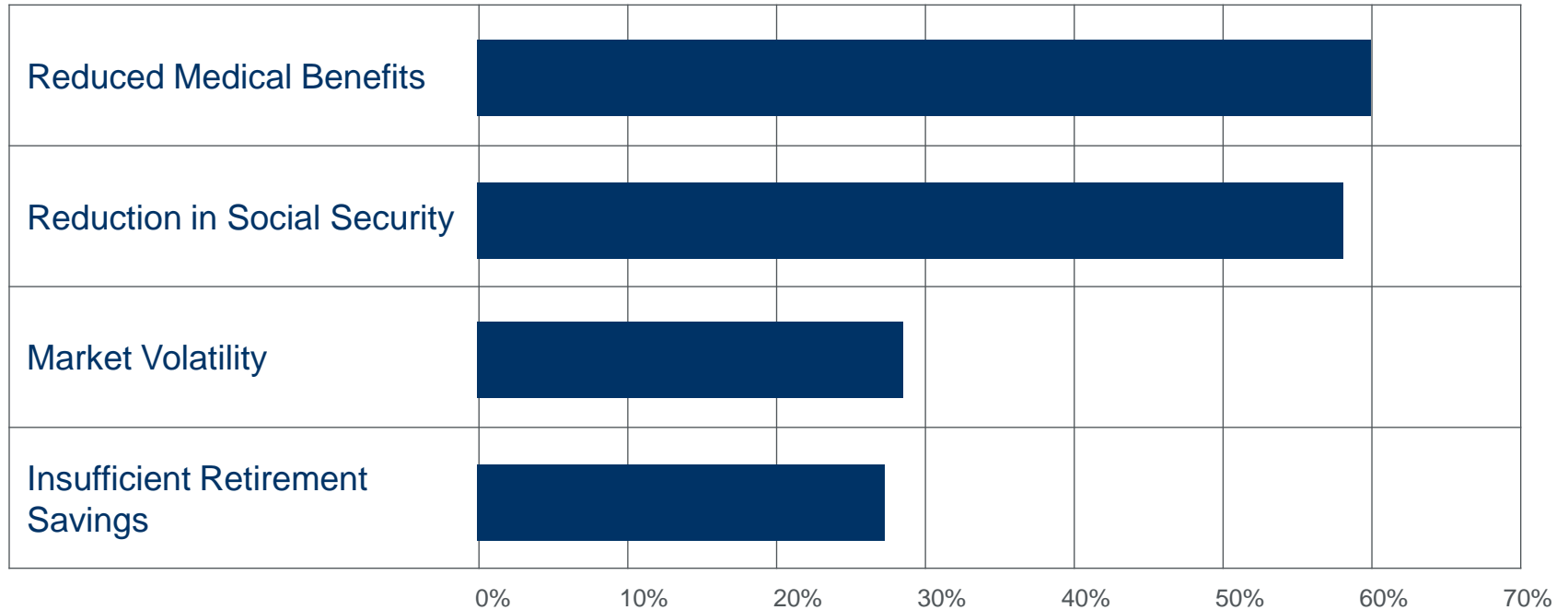


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# Retirees' Top Concerns



Source: Principal WBI Q4 2011

# Why Should You Care about Medicare?

1. Clients are likely nearing retirement age
2. Retired couples could spend over \$270k on health care<sup>1</sup>
3. Your clients are worried

**People age 55 to 64 make up the majority of the book of business for 55 percent of advisors.**

*Cogent Research Advisor  
Brandscape 2011*

<sup>1</sup> EBRI Issue Brief #351, December 2010, [http://www.ebri.org/pdf/briefspdf/EBRI\\_IB\\_12-2010\\_No351\\_Savings3.pdf](http://www.ebri.org/pdf/briefspdf/EBRI_IB_12-2010_No351_Savings3.pdf)

## What is Medicare?

- Federal health insurance program
- For people age 65 or older (or the disabled)
- Three main health care options: Parts A, B, and C
- Prescription drug coverage is Part D



# Medicare

## Medicare Parts A & B

<b>Part A (Hospital Insurance)</b>	<b>Part B (Medical Insurance)</b>
<ul style="list-style-type: none"><li>• Hospital Stays</li><li>• Skilled Nursing Care</li><li>• Home Health Care</li><li>• Hospice Care</li></ul>	<ul style="list-style-type: none"><li>• Doctors' Services</li><li>• Outpatient Medical/Surgical Svcs</li><li>• Diagnostic Tests</li><li>• Outpatient Therapy</li></ul>

## Medicare Part C

### Part C (Medicare Advantage Plans)

- Coverage provided by private insurance companies
- Cost varies by plan
- Get all of coverage in Parts A and B
- May also get other benefits to help cover costs

# Medicare Part D

## Part D (Prescription Drug Coverage)

- Helps cover prescription drug costs
- Provided through private companies
- Voluntary enrollment
- Must be enrolled in Parts A & B
- Enroll within three months of Medicare eligibility

# Medicare Medigap

- From a private insurance company
- Premiums vary by company, coverage, and state
- Buy during a six-month open enrollment period





## Key Medicare Decisions

### Step 1: Getting coverage

Original Medicare		Medicare Advantage Plan
<b>Part A</b> (Hospital Insurance)	<b>Part B</b> (Medical insurance)	<b>Combines Parts A, B and usually Part D</b>
<ul style="list-style-type: none"> <li>• Coverage provided by Medicare</li> <li>• Choice of doctors, hospitals, and other providers (must accept Medicare)</li> <li>• Patient or supplemental coverage pays deductibles and coinsurance</li> <li>• Monthly premium for Part B</li> </ul>		<ul style="list-style-type: none"> <li>• Coverage provided by private insurance companies (must be approved by Medicare)</li> <li>• Typically need to use plan's doctors, hospitals, and other providers (or pay more or all of the costs)</li> <li>• Pay a monthly premium (above Part B premium) and a co-payment or co-insurance for covered services</li> <li>• Costs, extra coverage, and rules vary by plan</li> </ul>

# Key Medicare Decisions

## Step 2: Adding a drug coverage

Original Medicare	Medicare Advantage Plan
<p><b>Part D (Prescription Drug Coverage)</b></p>	<p><b>Part D (Prescription Drug Coverage)</b></p>
<p><b>For people who chose Medicare Parts A&amp;B:</b></p> <ul style="list-style-type: none"> <li>• Must choose and join a Medicare Prescription Drug Plan</li> <li>• Usually pay a monthly premium</li> <li>• Plans are run by private companies approved by Medicare</li> </ul>	<p><b>For people who chose Medicare Advantage (if not already included in plan):</b></p> <ul style="list-style-type: none"> <li>• In most cases, must get it through the plan</li> <li>• If plans don't offer drug coverage, may be able to join a Medicare Prescription Drug Plan</li> </ul>

# Key Medicare Decisions

## Step 3: Adding supplemental coverage

### Medigap Policy

- Can buy a Medicare Supplement (Medigap) policy from a private company
- Costs vary by policy and company
- Employers/unions may offer similar coverage
- Those who join a Medicare Advantage plan can't have a Medigap policy

# Medicare Eligibility

## Applicant must be:

- Age 65 or older and
- Qualify for Social Security benefits (elected or not)
- May be eligible based on spouse's or former spouse's eligibility



## Enrollment

### Medicare Parts A and B:

- **Seven-month enrollment period** – starts three months before the month they reach 65; ends three months after the month they turn 65
- **General enrollment period** - January 1 - March 31 annually
- **Special enrollment period** - if covered under a group health plan based on current job
- **Medicare Part B** – Must wait for next general enrollment period if not enrolled initially

### Enroll at:

- **Online at [ssa.gov](https://ssa.gov)**
- **Call 800-772-1213 to make an appointment**

# Medicare Resources

## **Center for Medicare & Medicaid Services (CMS)**

**Phone: 800-633-4227**

**Web: [www.medicare.gov](http://www.medicare.gov)**

## **Social Security Administration (SSA)**

**Phone: 800-772-1213**

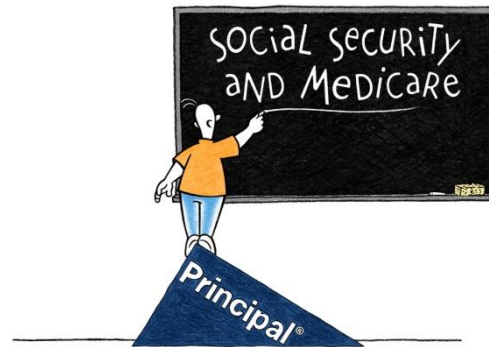
**Web: [www.socialsecurity.gov](http://www.socialsecurity.gov)**

## **State Health Insurance Assistance Program (SHIP)**

**[www.medicare.gov/contacts](http://www.medicare.gov/contacts)**

# Social Security

What your clients don't know—and what it could cost them

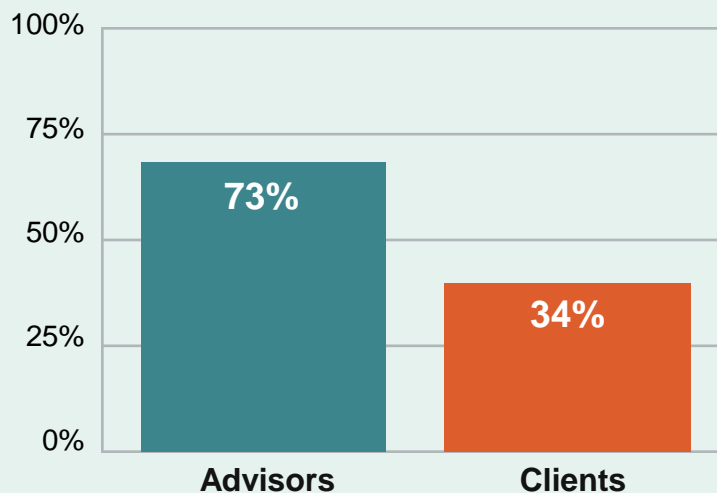


For Financial Professional Use Only.

## Wishful Thinking...

### Advisor Perception vs. Client Reality

Re: Primary Advisor Role\*



**Advisors often overestimate their role as clients' primary advisor.**

### The Opportunity

- **8,000 Boomers reaching retirement age daily** for next 18 years\*\*
- Boomers **seek additional advisors after they retire\***
- **Movement of client assets** usually begins **1 to 2 years post retirement\***
- Solidify your position as **primary advisor before your clients retire\***

**Maximize clients' use of multiple advisors to your advantage.**

Sources:

\*The Cerulli Edge, Q3 2011

\*\*AARP.org

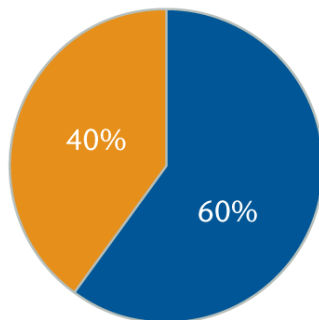


# Social Security

## Retirement Income

- 80% - 100% of pre-retirement income

### SOURCES FOR RETIREMENT INCOME FOR AVERAGE INCOME EARNERS



As you can see, there are other sources of retirement income, but the employer-sponsored retirement plan and personal savings are two of the largest pieces of income.

■ **Employer-Sponsored Retirement Plan and Personal Savings**    ■ **Social Security**

Source: Social Security Administration, Office of Policy, Office of Research, Evaluation Statistics, Fast Facts and Figures About Social Security, 2010.

## Replacement of Income

### Social Security benefits compared to past earnings Low, Average, High, and Maximum Earner



Source: Board of Trustees 2007.

Low earnings are 45 percent of the average wage; high earnings are 160 percent of the average wage.

Retirement age at 65.

# Social Security Credits

- Need at least 40 credits
- Earn a maximum of 4 credits per year
- Retirement benefit = average of highest 35 earnings years



## Social Security

# Full Retirement Age (FRA)

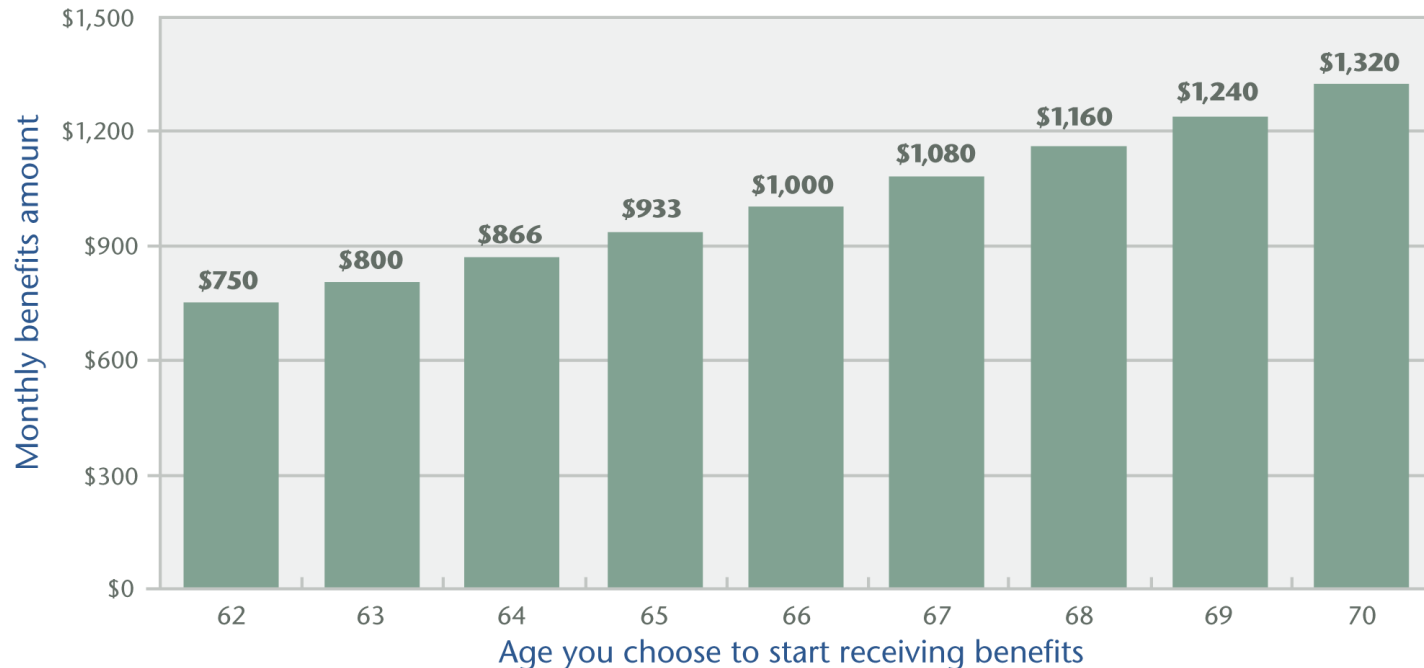
<b>Year of Birth</b>	<b>Normal (or Full) Retirement Age</b>	<b>Percent Reduction if elected at 62</b>
<b>1937 or earlier</b>	<b>65</b>	<b>20.00%</b>
<b>1938</b>	<b>65 and 2 months</b>	<b>20.83%</b>
<b>1939</b>	<b>65 and 4 months</b>	<b>21.67%</b>
<b>1940</b>	<b>65 and 6 months</b>	<b>22.50%</b>
<b>1941</b>	<b>65 and 8 months</b>	<b>23.33%</b>
<b>1942</b>	<b>65 and 10 months</b>	<b>24.17%</b>
<b>1943 – 1954</b>	<b>66</b>	<b>25.00%</b>
<b>1955</b>	<b>66 and 2 months</b>	<b>25.83%</b>
<b>1956</b>	<b>66 and 4 months</b>	<b>26.67%</b>
<b>1957</b>	<b>66 and 6 months</b>	<b>27.50%</b>
<b>1958</b>	<b>66 and 8 months</b>	<b>28.33%</b>
<b>1959</b>	<b>66 and 10 months</b>	<b>29.17%</b>
<b>1960 and later</b>	<b>67</b>	<b>30.00%</b>

# Delayed retirement – Increased Benefits

<b>Year of Birth</b>	<b>Normal (or Full) Retirement Age</b>	<b>Yearly Increase Rate</b>
<b>1939</b>	<b>65 and 4 months</b>	<b>7%</b>
<b>1940</b>	<b>65 and 6 months</b>	<b>7%</b>
<b>1941</b>	<b>65 and 8 months</b>	<b>7.5%</b>
<b>1942</b>	<b>65 and 10 months</b>	<b>7.5%</b>
<b>1943-or later</b>	<b>66+</b>	<b>8%</b>

## Early vs. Late Retirement

Monthly benefits amounts differ based on the age you decide to start receiving benefits



This example assumes a benefit of \$1,000 at a Full Retirement Age of 66

## Working & Social Security

<b>Age</b>	<b>2012 Limits</b>	<b>Considerations</b>
<b>Under Full Retirement Age</b>	<b>\$14,640</b>	<b>For every \$2 over the limit, \$1 is withheld from benefits.</b>
<b>In the year Full Retirement Age is reached</b>	<b>\$38,880</b>	<b>For every \$3 over the limit, \$1 is withheld from benefits until the month in which full retirement age is reached.</b>
<b>At Full Retirement Age or older</b>	<b>No limits on earnings</b>	<b>None</b>

Source: Social Security Administration.

# Taxes and Social Security





## Taxes & Social Security

Single Filing		Married Filing	
Provisional Income	Taxed Benefits	Provisional Income	Taxed Benefits
Under \$25,000	0%	Under \$32,000	0%
\$25,000 – \$34,000	Up to 50%	\$32,000 – \$44,000	Up to 50%
Over \$34,000	Up to 85%	Over \$44,000	Up to 85%

Note: State and local taxes may differ.

# Spousal Benefits

- Based on spouse's work record
- Spouse must have applied for benefits
- ½ of spouse's Full Retirement Age benefit
- Claiming before Full Retirement Age



## Social Security Benefits

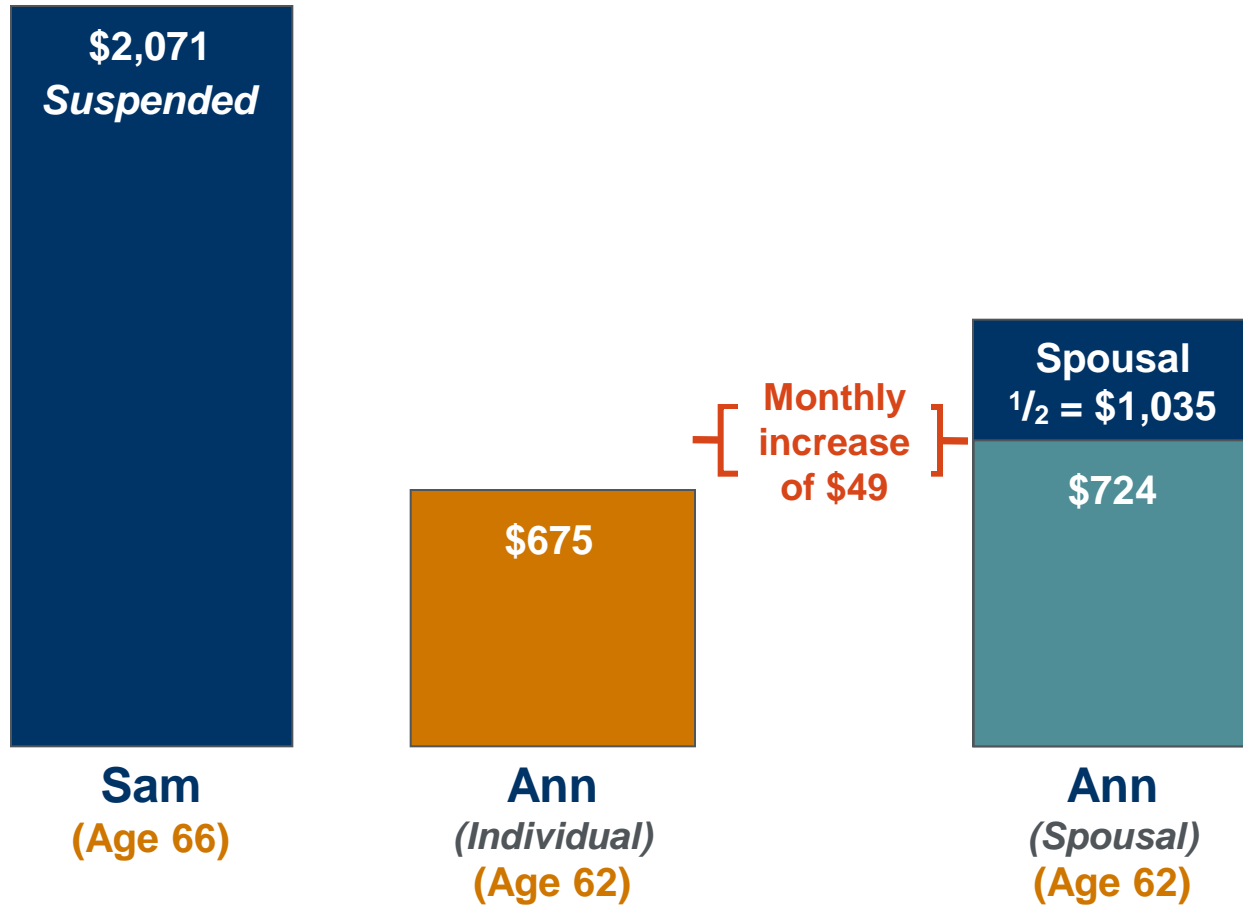
### Couple Scenario:

- Full Retirement Age: 66

Social Security benefits if started at age:

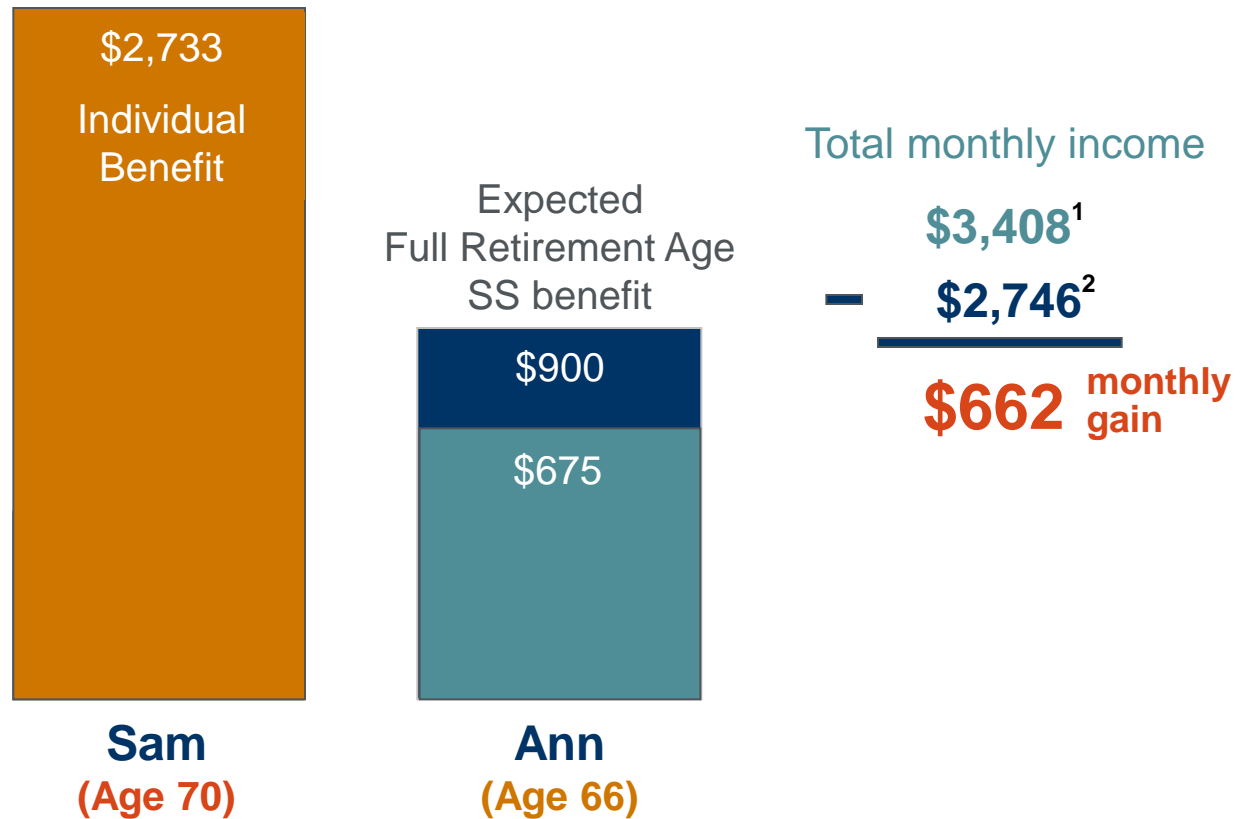
	62	66	70
Ann	\$675	\$900	\$1,180
Sam	\$1,562	\$2,071	\$2,733
Ann's Spousal	\$724	\$1,035	\$1,035

# Claim and Suspend



# Social Security

## Claim Now, Claim More Later



1 Sam delayed credits to age 70 receiving \$2,733 and Ann elected her personal benefit early receiving \$675.

2 Sam elects personal benefit \$2,071 and Ann receives her personal benefit of \$675.

# Survivor Benefit

- “Greater of” benefit
- Do not receive both benefits

Age 62	Age 66	Age 70
\$1,562	\$2,071	\$2,733

# Medicare & Social Security Opportunity

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**Position yourself as a trained professional**

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**Utilize checklists and client materials**

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**Each client's situation is unique**

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**Help clients make good decisions —  
and avoid costly mistakes**

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# Questions?



# Disclosures

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