Information Bulletin

Medicare Options for Illinois - Municipal and Fire District Retirees

January, 2023

Executive Summary: IPPFA conducted a review of options for Medicare supplemental coverage for fire and police retirees upon attaining age 65. We compared the typical cost of staying in the municipal (or fire district) plan and the options that are generally available to all Americans in the private insurance markets. Our findings are summarized below and detailed in this *IPPFA Information Bulletin* beginning on page 2.

The cost of remaining in the employer-based plan upon attaining age 65 is quite high. The average premium reported in a sampling of municipalities was $698 per month. Over the course of a male retiree's lifetime, this premium will total $159,000 in today's costs. For a married husband and wife, the cost is $340,000.

The most extensive Medicare supplement policy, Plan G, plus a standard Medicare prescription drug card will cost the same retiree $51,700 lifetime and $99,200 for a married husband and wife (all in today's dollars). These costs can be reduced further by selecting other options or submitting to a high deductible.

A Medicare Advantage Plan is also an option. Most of these plans restrict the network of doctors which can be used but provide for additional cost savings.

We conclude that there are substantial, good coverage options that Medicare-covered retirees can use that will reduce their lifetime costs by a significant amount. To examine these possibilities, interested persons should read this *IPPFA Information Bulletin* and then reach out to a licensed agent for further information and assistance. Do not pursue other coverage by responding to direct mailings from insurance companies or calling the 1-800 number displayed on TV ads featuring a retired quarterback or *Star Trek* actor!

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Approved: James McNamee, President, IPPFA 12/1/2022

Information Bulletin
Medicare Options for Illinois Municipal and Fire District Retirees
March 2022

Overview: Retired fire and police personnel in Illinois are permitted to remain in their municipality or district's health insurance program at their own cost until attainment of age 65 (*i.e.*, the retiree pays 100% of the premium). Certain disabled retirees may stay in these plans until Medicare eligibility at no cost to the participant. Data obtained and reviewed by the IPPFA indicates that the cost of staying in a municipal plan after attainment of Medicare age is quite high, and retirees may be able to reduce premiums but maintain robust coverage by switching to Medicare Supplement or Medicare Advantage plans that are available in the private insurance markets.

This *IPPFA Information Bulletin* explores the cost of staying in the municipal plan after Medicare eligibility and compares that cost and coverage to alternatives that are readily available to the public. We conclude with the recommendation that retirees carefully explore the options available versus staying in the city/district health plan at age 65.

Note that while this analysis was undertaken to explore costs and options for police and fire retirees, the same information applies to non-sworn retirees from public works, city hall and similar individuals who are IMRF retirees.

The Municipal/District Plan Option

Many retirees maintain coverage in their municipal health plan, both for the individual and spouse. Upon attainment of Medicare eligibility (usually age 65), the municipal plan becomes the secondary coverage. That is, Medicare pays the claim first and the employer plan picks up the balance. Note that there will still be balances due from the patient in this scenario, but they tend to be fairly small.

Premium Cost Determination: To determine the typical premium cost that Illinois municipalities charge retirees who have Medicare coverage, IPPFA filed Freedom of Information Act (FOIA) requests with 41 municipalities. This was a random sample, spread throughout the state, but concentrated more in metro-Chicago due to the high number of fire and police professionals located north of I-80. For ease of filing the request, we picked towns that more likely had online FOIA portal access. IPPFA asked for any document that stated the monthly premium for retirees, both those with Medicare coverage and those without (*i.e.*, not yet 65). The request was friendly in nature, advising the town that IPPFA was conducting general research on retiree medical costs and that all data would be aggregated for reporting purposes.

Requests were filed online (23), by email (2) and via US Mail (16). In virtually all cases, responding towns gave us the most recent annual premium notice provided to retirees.

Results: A summary of the results received is as follows:

Providing Continuation of Medicare Coverage in Employer Plan. Twenty-two (22) responding communities allow continuation of the employer plan upon attainment of Medicare age. Eligible retirees in this category pay 100% of the cost themselves and obtain the same coverage as active employees. Of these 22 towns, 18 provide a premium rate reduction upon attainment of Medicare age. Of those 18, two provide an option to select alternative coverage from Benistar and two provide an option to elect a Medicare Advantage Plan (more on Benistar and Medicare Advantage plans later in this report). Four communities allow retirees to stay in their health plan upon attaining age 65 *but do not* provide for a rate reduction.

The individual Age 65+ premiums range from $558 to $846 per month. The average charge is $698. If the four towns that provide no rate reduction are removed from the calculation, the average charge is $673.

Group Plan Option. Seven (7) towns provide only for access to a separate group plan, secondary to Medicare. Five were identifiable as provided through Benistar and the other two appear to be provided through either Benistar or a major health insurer. The charges were generally age-based and averaged in the mid-$400 range per month.

HMO and Medicare Advantage Only. One (1) town allows for continued coverage for Medicare retirees only through an HMO or a Medicare Advantage Plan.

Subsidized Coverage. Three (3) respondents provide a subsidy for retirees*, i.e.,* the retiree does not pay the full cost of his or her coverage. These towns were omitted from any rate calculations.

No Coverage at Age 65. Three (3) respondents do not provide coverage to retirees once they become Medicare eligible.

Did Not Respond. Five (5) towns did not respond to the FOIA request. IPPFA did not follow-up because we had received enough data to proceed with the analysis. Note that there may have been a problem with the transmission of our request online or a problem with the US Mail. *These towns did not necessarily ignore an FOIA request.*

Costs Evaluated: For the communities that provide continuing coverage in their municipal health plan after Medicare eligibility, the costs are noticeably high. At an average of $698 per month, a male retiree with the life expectancy provided for in the Social Security actuarial tables (19.0 years) will pay $159,000 in lifetime premium in today's dollars from ages 65 to 83. Note that IPPFA will not predict future medical inflation, but we can safely say that the actual cost will be well in excess of $159,000. For a couple with a female retiree or spouse living 21.6 years from age 65, the combined cost will be $340,000 plus inflation.

For this reason, IPPFA continued its research into lower cost alternatives.

Medicare Basics

The country's health care payment system that covers persons age 65 and older and some disabled individuals has been in place since 1965. Today, Medicare covers 66 million Americans. Medicare Part A covers hospitalization; Medicare Part B covers doctors, testing, therapies and similar out-patient treatment. Medicare A is free for anyone who earned Medicare eligibility via employment or marriage; Medicare B has a monthly cost of $165 (deducted from a Social Security check or paid directly by the retiree). This cost can be higher if an individual or couple's income is higher than certain thresholds.

Coverage Gaps: Medicare coverage is quite comprehensive. If you look on Google or YouTube for "expenses that Medicare does not cover" you will not find much. There are nine "gaps" in Medicare coverage that most analysts identify as follows:

1. There is a $1,600 deductible for inpatient hospitalization.

2. There are daily hospital copayments after a person has been in the hospital for 60 days. They are $400 per day for days 61 - 90 and $800 per day for days 91 – 150.
3. There is a daily copayment of $200 for daily treatment in a Skilled Nursing Facility beyond the 20th day.
4. There is no Medicare coverage after day #150 of inpatient hospitalization.
5. There is an annual deductible of $226 under Part B for doctors, clinics, tests, *etc.*
6. There is coinsurance of 20% under Part B (*i.e.*, Medicare pays 80%) and there is no annual or lifetime cap on this coinsurance.
7. If a doctor or hospital does not accept "Medicare assignment" (most do), there may be charges in excess of the Medicare allowable costs.
8. Medicare does not pay for treatment outside the U.S.
9. Medicare Parts A and B do not pay for prescription drugs.

Many of these gaps are inconsequential to the majority of public safety retirees. But some can result in substantial financial loss. For example, although hospital stays in excess of 60 days are rare, a long hospitalization could cost tens of thousands of dollars even with Medicare coverage.

Filling the Gaps: Because of these risks, most persons on Medicare arrange for additional coverage. Information from the *Kaiser Family Foundation* details where this protection comes from:

Medicare Advantage Plans	39%
Medicare Supplement or "Medigap"	21%
Employer Coverage (active or retired)	18%
Person has both Medicare and Medicaid	12%
No Other Coverage	10%

The remainder of this *IPPFA Information Bulletin* examines coverage under Medicare Supplement and Medicare Advantage plans compared to the employer-based option available to many Illinois municipal retirees.

Medicare Supplement or "Medigap"

Medigap is coverage that fills in the "gaps" for Medicare covered services. Fortunately, Medicare regulates the structure of allowable Medigap plans, so they are easily identifiable and comparable. An insurance company cannot offer Medicare supplemental coverage to an individual via anything other than the approved plans. They are identified by a letter designation, Plan A to Plan N (some letters are missing as those plans are no longer available). The result is that the premiums quoted by three different companies for Plan G may be different but the coverage is exactly the same.

None of these plans cover prescription drugs; a separate drug plan must be purchased for that protection. A chart showing the main features of these plans is included under Appendix #2 of this *IPPFA Information Bulletin*.

Medigap Plans: The most extensive coverage is provided by Plan G; under which everything other than the annual Part B deductible ($226) and prescription drugs is covered - although for foreign country claims there are limits on non-U.S. emergency care. Premiums quoted to IPPFA for Plan G coverage in Illinois for a 70-year-old male were in the $140 to $194 range. Women are slightly cheaper.

This cost could be reduced if a retiree was okay with less coverage. For example, Plan M covers only one-half of the $1,600 hospital deductible and excludes foreign medical care. Plan N requires some physician and emergency room copayments and does not cover Part B excess charges. The premiums for these plans are slightly less than Plan G. Also, a person can get Plan G coverage but with a high deductible - $2,700 in 2023. This exposure to a high deductible drops the monthly premium for our 70-year-old male to approximately $60 to $70. With a high deductible Plan G, Medicare still makes its required payments so in most years the retiree will not have personal expenses anywhere near the $2,700 deductible.

Use an Agent: A recommendation that will be repeated several times is that retirees who are interested in alternatives to their city/district sponsored health coverage should work with a knowledgeable agent licensed in the state of their residence. Agents are often licensed in many states (*i.e.*, an Illinois based agent can possibly assist a retiree living in Arizona). The contact information for agents that assisted IPPFA in this research is provided at the end of this report.

Drug Coverage. If a Medigap plan is purchased, a separate drug policy is needed, as explained below.

Medicare D – Prescription Drug Coverage

A Medicare benefit for prescription drugs was added in 2006. However, this is not provided directly by Medicare – individual insurers or pharmacy benefit plans provide the coverage under contract with the U.S. government. Unlike the Medigap standard plan structure, Medicare D drug plans *are not standardized* other than certain deductibles and coverage levels. Copayments and coverage for individual drugs all vary. This makes comparison difficult. Medicare**.**gov has a "find a plan" feature in which you input the drugs you take and the website shows you Medicare D plans in your state that

provide suitable coverage. These plans are also rated as to quality and service, so the ratings can be another basis of comparison.

Part D Benefits: The Part D defined standard benefit has several phases, including a deductible, an initial coverage phase, a coverage gap phase, and catastrophic coverage. However, individual Part D plans may provide enhanced benefits that pay extra during some of the coverage gaps.

For 2023, there is an annual deductible of $505, although some Plan D products will pay benefits for lower cost generics even if the deductible has not been met. Then there is an initial coverage period during which the patient pays the Part D plan's copayment until the plan has paid $4,660 in the year. The patient then goes into a coverage gap (sometimes called "the donut hole"). But the person is really not without coverage; the patient pays no more than 25% of the cost of the drugs. Then there is a "catastrophic coverage" benefit that kicks in after out-of-pocket spending hits $7,400. After that, the amount the patient has to pay drops to 5% of the drug cost.

Part D Costs: Premiums can range from $0 to $100. The average Medicare D premium is projected at $43 per month in 2023. Note that if a Medicare D plan is not purchased when you are first eligible for Medicare (or transferring from an employer-based plan that has creditable coverage), there is a penalty applied when you do enroll in Medicare Part D. Again, a licensed agent can assist you in purchasing a drug plan when on Medicare.

Medicare Advantage Plans

Since 1997, Medicare enrollees have had the option of opting for Medicare Advantage instead of standard Medicare coverage (sometimes called "Original Medicare"). Medicare Advantage plans usually incorporate Part D drug coverage and may include extras such as dental and vision and other benefits.

Network Approach. Advantage plans tend to limit patients to a provider network, and coverage for specific services may not be as robust as it would be with Original Medicare plus supplemental coverage. There will most likely be scheduled copayments for doctor visits, emergency room services, hospitalization and medical specialists. Referrals for some specialty care may be required. The network limitation can be quite narrow, such as certain Health Maintenance Organizations (HMO), or broader such as regional Preferred Provider Organizations (PPO). Medicare Advantage PPOs usually have more restrictions than the broad PPO network and out-of-network coverage that employer-

based plans have. However, there is one Medicare Advantage plan from Blue Cross in Illinois that requires no network affiliation and has no medical treatment copayments.

Medicare Advantage Costs: Advantage plans tend to have lower premiums than a Medigap plan plus a Part D drug plan. A typical regional PPO plan nationwide premium is $47 monthly (and this includes prescription drugs). Some plans are "zero cost," but also come with more restricted networks and likely more copayments. These are the plans you see advertised on TV. The Blue Cross of Illinois PPO referenced above, with *no* medical treatment copayments or network restrictions, costs $190 monthly.

Common Medicare Advantage Insurers: Data from the *Kaiser Family Foundation* notes that well over half of Medicare Advantage plans are offered by three insurance companies: United HealthCare (26%), Humana (18%) and Blue Cross (15%). IPPFA believes that the penetration in Illinois for Blue Cross is higher due to the popularity of that insurer in employer-sponsored plans and the local Medicare coverage markets.

Is a Medicare Advantage plan right for you? It is the most common form of extra protection, so many people obviously have chosen this approach. But its appropriateness can only be evaluated on an individual basis. Are your doctors in the network? Are most of your drugs covered at reasonable prices? Do you spend most of the year in one geographic area? If the answer to these questions is "yes," then a Medicare Advantage plan may be right for you. A licensed insurance agent can assist in this analysis.

Please do not "call this number" shown during a TV commercial with an old-time TV star or hero quarterback hawking a Medicare Advantage plan. Work with an agent and do your own analysis.

The Benistar Option

As noted in the first section, five responding cities have retiree coverage available to Medicare retirees through Benistar (and two others have Benistar as an option). Benistar is a Third Party Administrator (TPA) that specializes in retiree group products and service nationwide. Benistar premiums are age-based and run in the $450 range. This plan seeks to duplicate the coverage that retirees had when they were active fire/police/other public employees. They are able to offer the coverage at a cost much lower than the $698 municipal average due to expert underwriting and accessing federal drug benefit subsidies that would be difficult for an individual municipality to obtain.

Governments that offer their Medicare retirees coverage through Benistar appear to be providing a high level of coverage and a cost that is not as low as the Medigap/drug plan approach but certainly lower than the average premium charged by municipalities. Coverage through Benistar also offers a level of customer service assistance.

What Should a Retiree Do?

Compare Costs: It's important for each individual retiree to compare the costs and coverage under his or her employer plan and the options available in the products that have been explained in this *IPPFA Information Bulletin*. The municipal costs we have noted are averages; the important base for comparison is what any individual retiree has to pay. The Medigap and Medicare Advantage premiums quoted are typical, but each individual needs to assess his or her own situation and the insurance that can best serve their needs. With that being said, what follows is a comparison of the typical municipal plan premiums *versus* commonly available Medicare insurance, drug plan and Medicare Advantage products and policies.

The Municipal or Fire District Plan Costs: In one option, an individual can stay in the employer's plan if that route is available. As noted earlier, the IPPFA study group has an average monthly cost of $698 if a Medicare eligible retiree stays in a typical city plan. Excluding consideration of future medical premium inflation, a male retiree at age 65 who stays in the plan for 19 years will pay $159,000 over his lifetime. A female over 21.6 years will pay $180,900. For a husband and wife, the costs combine at approximately $340,000.

Medigap Plan G *Plus* Part D Drug Coverage Costs. A male retiree in an Illinois Blue Cross Medigap Plan G from ages 65 to 83 will pay an average of $194 monthly based on today's rates. Add $43 for the nationwide average Part D drug plan and the monthly cost averages $237 or a lifetime cost of $54,000. For a female at a lower premium but longer life expectancy, the average is $193 monthly - $50,000 lifetime. For a husband and wife, these costs combine at $104,000. The premium charged by other insurers may be higher or lower.

Compared to the municipal plan option, a lifetime of Plan G plus drug coverage is $105,000 cheaper for a male retiree and $236,000 lower for a married husband and wife.

The price of Medigap coverage may be reduced further. A retiree can select a Medigap plan other than Plan G, with resulting lower benefits and lower premiums. However, most insurance agents we spoke to felt that Plan G was the best value. There is also the Plan G High Deductible option. If the insured accepts a high deductible, set by law in

2023 at $2,700, the monthly premium drops to an average of less than $80 per month over a retiree's lifetime. When this is done, the premium cost over a males' lifetime is $131,000 less than a typical municipal plan ($280,000 for a husband and wife).

Medicare Advantage Plan Costs: Using the reported average premium of $47 for a regionally-based Preferred Provider Option (PPO), the lifetime savings over the municipal option is $148,000 for a male retiree and even cheaper for a female retiree or spouse. Combined savings for a married husband and wife is $317,000.

Using the new "Cadillac" Medicare Advantage product from Illinois Blue Cross (Illinois residents only), the monthly premium of $190 includes both medical and drug coverage with no network restrictions and no medical treatment copayments. That lifetime savings over the municipal option is $115,800 for a male retiree, more for a female retiree and combined at $247,500.

What to do? Medicare eligible retirees who have the option of staying in their employer's health plan should examine the coverage and premium to determine if an alternative would provide for a more cost-effective approach.

To evaluate specific options to the municipal plan, it is best to work with an insurance agent who is licensed in your state and who has access to the large insurance carriers. If you do not have or know of an agent licensed in this area, we have included the names and contact information on agents who assisted IPPFA in this research. *But the choice of an agent is yours alone.*

Do not respond to TV or newspaper ads for Medigap or Medicare Advantage plans. This is too narrow of a focus. Direct mailings from insurance companies are also not a good source. Either of these approaches may result in a "hard sell" effort from the insurer. Another suggestion, don't fill out forms on the internet that provide your personal and contact information.

If you have Benistar or a similar group plan as an option for your health coverage after Medicare age, take a close look at this option. It will reduce premium costs with virtually no impact on the coverage.

Municipalities that do not offer Benistar or a similar group plan as an option should examine this opportunity. It is not really feasible for a city of fire district to capture the federal drug plan subsidies, but a group plan can do it for you. This will reduce retiree costs. Benistar works through insurance brokers.

Acknowledgements and Resources

IPPFA was assisted by several insurance agents who provided information and reviewed a draft of this report. Those companies are listed below.

Elite Administration and Insurance, 1211 W. 22nd Street, Suite 820, Oak Brook IL 60523. Bill Hansa is at bhansa@eliteadmin.com, 708-947-7710. Elite provides insurance administration and brokerages services for union and similar groups and Medicare coverages for Illinois residents only.

Alan Gray Financial Services, 707 Skokie Blvd, Suite 100, Northbrook, IL 60062, alan@alangrayfs.com, 847-498-0008. Alan's brokerage concentrates on Medicare coverage and is licensed to assist Medicare retirees in Illinois, Arizona, Florida, Nevada, Michigan and Arkansas.

Tom Perrucci, Premier Medicare Benefits, 126 Augusta Drive, Streamwood 60107, 847-630-3766, tom@premiermedicarebenefits.com. Licensed in Illinois, Wisconsin, Florida, Virginia, Ohio, Oklahoma, Texas, Michigan, South Carolina, Iowa and Kentucky.

The researchers used instructional *YouTube* videos and other information from *Medicareschool.com* to help understand various issues. Benistar (Benistar.com) assisted IPPFA in understanding the group approach to Medicare supplementation. Medicare**.**gov has excellent short publications on all of the issues presented: Medicare, Medigap, Part D coverage and plans and Medicare Advantage.

CLOSING

We hope you obtained useful information to assist you or other retires in controlling health insurance premium costs. Good luck in pursuing the best value plan for you and your family. For information on your Illinois police/fire retirement income**:** pension, Social Security, and deferred compensation, we offer the *IPPFA Retirement Guide*. This book is available on Amazon for $9.95. For bulk purchases, contact IPPFA.

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Appendix #1 – Respondents to FOIA Request

The IPPFA appreciates the information and cooperation from the following communities:

Arlington Heights
Aurora
Belleville
Berwyn
Buffalo Grove
Champaign
Decatur
Downers Grove
Elgin
Evanston
Freeport
Glen Ellyn
Glenview
Highland Park
Joliet
Lake Forest
Libertyville
Lombard
Mt. Prospect
Naperville
Niles
Normal
Northbrook
Oak Brook
Oak Park
Palatine
Park Ridge
Pekin
Peoria
Quincy
Schaumburg
Skokie
Springfield
St. Charles
Waukegan
Wheaton
Winnetka

Benefit Chart of Medicare Supplement Plans Sold on or after January 1, 2021

This chart shows the benefits included in each of the standard Medicare supplement plans. Some plans may not be available. Only applicant's first eligible for Medicare before 2020 may purchase Plans C, F, and high deductible F.

Note: A ✔means 100% of the benefit is paid.

Benefits	Plans Available to All Applicants								Medicare first eligible before 2020 only	
	A	B	D	G[1]	K	L	M	N	C	F[1]
Medicare Part A coinsurance and hospital coverage (up to an additional 365 days after Medicare benefits are used up)	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Medicare Part B coinsurance or Copayment	✔	✔	✔	✔	50%	75%	✔	✔ copays apply[3]	✔	✔
Blood (first three pints)	✔	✔	✔	✔	50%	75%	✔	✔	✔	✔
Part A hospice care coinsurance or copayment	✔	✔	✔	✔	50%	75%	✔	✔	✔	✔
Skilled nursing facility coinsurance			✔	✔	50%	75%	✔	✔	✔	✔
Medicare Part A deductible		✔	✔	✔	50%	75%	50%	✔	✔	✔
Medicare Part B deductible									✔	✔
Medicare Part B excess charges				✔						✔
Foreign travel emergency (up to plan limits)			✔	✔			✔	✔	✔	✔
Out-of-pocket limit in 2020					$6,220	$3,110				

[1] Plans F and G also have a high deductible option which require first paying a plan deductible of $2,370 for 2021 before the plan begins to pay. Once the plan deductible is met, the plan pays 100% of covered services for the rest of the calendar year. High deductible Plan G does not cover the Medicare Part B deductible. However, high deductible Plans F and G count your payment of the Medicare Part B deductible (but not the separate $250 foreign travel emergency deductible) towards meeting the plan deductible.

[2] Plans K and L pay 100% of covered services for the rest of the calendar year once you meet the out-of-pocket yearly limit.

[3] Plan N pays 100% of the Part B coinsurance, except for a co-payment of up to $20 for some office visits and up to a $50 co-payment for emergency room visits that do not result in an inpatient admission.

CT Insurance Department: January 1, 2021