

Delaying enrollment in Medicare drug plan can be costly

I heard from a financial adviser in Florida recently who asked if there was anything her clients, a married couple ages 69 and 70, could do to avoid paying a delayed enrollment penalty for their new Medicare Part D prescription drug plan.

"They never carried any drug coverage before now since they didn't feel that they needed it," the adviser wrote. "But now that they signed up for Medicare Part D, they got hit with a late-enrollment penalty."

Medicare Part D drug coverage is optional, and other sources of coverage, such as a current or former employer or union, Tricare, Department of Veterans Affairs or other health insurance, are appropriate substitutes. But forgoing Medicare D coverage initially and signing up at a later date without having creditable coverage in the interim can be a costly mistake.



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ONRETIREMENT

The couple wasn't aware that there is a permanent delayed enrollment penalty of 1% per month — for a total of 12% per year — for failing to enroll in a Medicare prescription drug plan during the initial enrollment period when they turned 65. Their

KEY POINTS

- Not enrolling in a Medicare drug plan in a timely manner can mean a penalty.
- The amount of the penalty can change from year to year.

combined penalty is about \$25 per month, in addition to their monthly premiums, costing them an extra \$300 per year.

"Are they really stuck paying it for the rest of their lives?" the adviser asked. Yes.

Individuals may owe a late-enrollment penalty if they go without creditable drug coverage for any continuous 63-day period after their seven-month initial enrollment period, which begins three months before their 65th birthday. The cost of the late-enrollment penalty depends on how long they went without prescription drug coverage.

CALCULATING THE PENALTY

Medicare calculates the penalty by multiplying 1% of the "national base beneficiary premium" (\$33.19 in 2019) times the number of full months the individual wasn't covered by Part D or creditable coverage. That is rounded to the nearest 10 cents and added to the monthly Part D premium.

Medicare offers this example. Mrs. Martinez is currently eligible for Medicare and her initial enrollment period ended May 31, 2015. She doesn't have prescription drug coverage from any



other source. She didn't sign up for Part D by May 31, 2015, but instead joined during the open enrollment period that ended Dec. 7, 2017. Her drug coverage was effective Jan. 1, 2018.

Since Mrs. Martinez was without creditable prescription drug coverage for 31 months, from June 2015 through December 2017, her penalty was 31% of the national base premium of \$35.02 for 2018.

The amount of the base premium and penalty can change from year to year. In 2019, Medicare recalculated Mrs. Martinez's penalty using the new base beneficiary premium of \$33.19.

How do you know if you have to pay a late-enrollment penalty? Once you join a Medicare drug plan, the plan will tell you if you owe a penalty and what your premium will be. In general, you'll have to pay this penalty for as long as you have a Medicare drug plan.

If you don't agree with the

penalty, you can request a "reconsideration."

In the meantime, you must pay the penalty. Medicare drug plans can disenroll members who don't pay their premiums, including the late-enrollment penalty portion.

The best way to avoid a late-enrollment penalty is to join a Medicare plan when you're first eligible, even if you don't have any prescription drug needs initially.

Medicare beneficiaries can re-shop their drug coverage each year during open enrollment season, from Oct. 15 through Dec. 7.

(Questions about Social Security rules? Find the answers in my ebook at [InvestmentNews.com/mbfebook](https://www.investmentnews.com/mbfebook).)

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