

# 3 Big Myths About Medicare

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With Social Security in the news so much lately due to benefit reductions recommended by the Deficit Commission, it recently seemed like a good time to bust some common myths about Social Security benefits. Now let's do the same for Medicare.

## **Myth #1: Medicare will cover my long-term care expenses.**



Medicare only covers medical expenses that are needed to treat an illness or accident. Long-term care expenses are for help with daily living activities, such as taking medications, bathing, using the restroom, etc. These aren't true medical expenses and generally aren't covered by Medicare or most medical insurance plans.

The confusion might come from the fact that Medicaid might pay for some of your long-term care expenses, but only for citizens who have exhausted their financial resources.

Since there's a good chance you'll need some form of long-term care over your lifetime, it's important to have a strategy to pay for long-term care expenses.

## **Myth #2: Health care reform eliminated my Medicare Advantage plan.**

Medicare Advantage (MA) plans are alternatives to conventional Medicare benefits, and they operate similar to an HMO. A few years ago, Congress thought MA plans would be an efficient way to deliver health care, and they encouraged their use through special subsidies. Now these subsidies are being phased out by health care reform to put MA plans on similar footing with conventional Medicare benefits. But this is not an elimination of your MA plan.

## **Myth #3: I'm entitled to my Medicare benefits because I've paid for them.**

It's true that we've all paid for a portion of Medicare's costs, but the amounts we've paid directly aren't even close to the full cost of the program. To see why I say this, let's take a look at how Medicare is financed. According to the August 2010 Medicare Spending and Financing Fact Sheet, prepared by the Henry J. Kaiser Foundation, here are the sources of Medicare funding:

- 37 percent is funded by payroll taxes into the federal government's Hospital Insurance (HI) Trust Fund, paid from payroll taxes while we're working and shared equally between employers and employees.
- 13 percent is paid by premiums collected current retirees.
- 43 percent is funded by general revenues — in other words, by taxpayers collectively.
- 7 percent comes from miscellaneous resources.

After looking at these numbers, you could argue that a person has directly paid for about 31.5 percent — or almost one-third the cost — of the benefits they could receive over their lifetime. That's 18.5 percent paid in HI taxes (the employee's half of 37 percent), plus the 13 percent paid in premiums. Others might argue that you've also paid for the 18.5 percent that's contributed by your employer to the HI Trust Fund, since your employer would have paid that to you in wages if it wasn't paying the money into the HI Trust Fund. While this last point is debatable, if we concede that point, then you'll pay for roughly half of your Medicare benefits over your lifetime.

And it's just this reason why I conclude it's not fair to say we're entitled to Medicare benefits because we paid for them. At best, we only directly pay for half of the cost of our Medicare benefits through our HI taxes while we're working, and premiums paid while we're retired. Of course, we also pay for part of the other half of the cost through our income taxes.

Don't get me wrong — I think it's a good thing for our society to help pay for the medical expenses of our senior citizens. But in our democratic society, we need to have honest debates about the appropriate amount of taxes our government needs to take to cover Medicare expenses from workers who are struggling to just meet daily living expenses.

We also need to keep in mind that our lifestyle choices regarding nutrition, exercise, stress management, and alcohol/cigarette consumption will significantly impact the amount of taxes our government needs to withhold from these hard-working families to pay for the cost of Medicare.

I'm at the age now where Medicare eligibility isn't too far away, and some of my relatives and friends have been covered by Medicare for several years. I've gladly paid my HI taxes as part of the bargain. But I also recognize that it's my responsibility to do everything possible with my lifestyle choices to minimize the burden on the next generation of workers. I hope you feel the same.