

Medicare Penalties

How many people pay Medicare penalties?

Why do Medicare penalties occur?

This study explains how Medicare is confusing, and the negative financial penalties suffered by millions of enrollees.

Over 50 million people are on Medicare in the United States. By 2035, some 80 million will be eligible.

For many, Medicare eligibility requirements and the Medicare enrollment process are confusing. What is often overlooked is how this confusion can lead to significant financial penalties for Medicare enrollees.

There are hundreds of thousands of beneficiaries who pay penalties every year, and millions more who are at risk.

The Medicare program itself creates the confusion. It is complicated, offering a seemingly endless number of options for incoming beneficiaries to navigate. Those who are eligible often miss their enrollment periods. This results in penalties, or more rightly, **ongoing fines**, that cost some Americans over \$5,000.

Medicare is confusing, and the real financial effects suffered by those who fail to decipher the program can last decades.

We set out to answer the following questions:

1. How much does a penalty cost a beneficiary throughout their coverage?
2. How many people pay late enrollment penalties?
3. Why do people most often pay these penalties?

Ultimately, this study shows how a beneficiary can pay upwards of \$5,000 in lifetime penalties.

The reasons people pay penalties differ, but it usually comes down to confusion.

- Unclear Medicare enrollment requirements.
- A lack of information on Medicare.
- Too many options to choose from, leading to inaction.

To make matters worse, those with low cognitive ability are disproportionately affected. This puts many people unwittingly at risk of paying significant penalties for their Medicare.

This study uncovers the confusion that surrounds Medicare enrollment, and the significant effect of that confusion in the form of enrollment penalties. Our intention is for beneficiaries to more clearly understand the consequences and magnitude of these penalties, and to enable them to enroll in the proper coverage on time and avoid a penalty.

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Understand Medicare Enrollment

To understand late enrollment penalties, one first needs to understand Medicare “enrollment periods.”

When someone enrolls in Medicare, they must do so during an enrollment period, and this period can differ depending on which part of Medicare one enrolls in.

For example, for Medicare parts A and B, the initial enrollment period begins 3 months before the month one turns 65, includes the month of the 65th birthday, and ends 3 months after one turns 65 - this results in a total of 7 months the initial enrollment period.

If a beneficiary fails to sign up during this initial enrollment period, they must wait until the next General Enrollment Period (January 1 - March 31) and pay a penalty. The enrollment period and penalties differ for each part of Medicare, with the penalties for parts B and D being the most severe. These two types of penalties result in a beneficiary paying an additional fee on top of their monthly premium for the entire duration of their coverage.

The late enrollment penalty for part B results in a beneficiary’s monthly premium increasing by 10% for each full 12-month period that the beneficiary could have had part B, but failed to sign up.

With the standard premium for 2016 being \$121.80, a **beneficiary’s premium would increase by \$12.18/month** for each full year that they failed to enroll in Medicare part B.

Table 1. **Enrollment Period Chart**

Period	Time Frame	Outcome
Initial Enrollment Period	3 months before 65-4 months after 65	No penalty
General Enrollment Period	January 1-March 31st, each year	Liable to pay penalty
Special Enrollment Period*	8 month period, after other coverage expires	No penalty

*If you're 65 or older and you are covered by your employer's or your spouse's group health plan, you may be able to enroll during a Special Enrollment Period

Penalties for Medicare Part D

Medicare part D has a similar late enrollment penalty.

*National Base
Beneficiary Premium*

*Lack of
Auto-Enrollment*

*Lengthy Appeal
Process*

As explained by Medicare.gov: “Medicare calculates the penalty by multiplying 1% of the ‘national base beneficiary premium’ (\$34.10 in 2016) times the number of full, uncovered months you didn’t have part D or creditable coverage. The monthly premium is rounded to the nearest \$.10 and added to your monthly part D premium.”

Beneficiaries seem to have a particular problem with this part D penalty.

For one, the “national base beneficiary premium” is not a definitive number, meaning it can change each year. For example, in 2015, the premium was just \$33.13, nearly a full dollar less than the same premium for 2016.

Medicare part D also lacks any form of auto-enrollment. Meaning, while many beneficiaries are auto-enrolled in Medicare parts A and B, a beneficiary is never auto-enrolled in part D. For this reason, many beneficiaries assume they would be automatically enrolled in all the coverage they need, leaving them lacking creditable drug coverage and facing a stiff penalty.

If a person does receive a penalty, they can appeal, but a reconsideration decision can take 90 days or more. A beneficiary is required to pay the penalty during this period, and they are not guaranteed a refund even if the late enrollment penalty is found to be incorrect.

**Penalties Don't Go Away . . .
They Must Be Paid for The Life of a Beneficiary's Coverage**

The Lasting Effect of Medicare Penalties

These penalties might not sound like much, but as they continue for the entire duration of a beneficiary's coverage, they become significant.

To demonstrate the compounding effect, it's important to look at an example.



Consider Mary: she is 65 and lives in Texas, makes less than \$20,000 per year, but unfortunately does not qualify for Medicare's Low Income Subsidy Program. Mary has been receiving her Medicare Part A benefits since she turned 65, but chose not to enroll in any other plans because she couldn't afford the premium and didn't need the additional coverage at the time.

Two full years later, Mary is diagnosed with cancer.

She discovers that she will need numerous lab tests and possibly even surgery – these costs are not covered by her Medicare part A plan. Because of this, Mary is recommended to additionally enroll in Medicare part B.

Because two full years have passed since her initial enrollment period, there is a penalty of \$24.36 per month for the duration of her coverage (10% of \$121.80 times two years). Moreover, since Mary lacks creditable prescription drug coverage, she is advised to enroll in Medicare part D as well, yet she must pay an additional penalty. This penalty will add up to be \$8.20 per month for the duration of her coverage (1% of \$34.10 times 24 months rounded to the nearest \$.10).

In total, Mary will pay \$32.56 in penalties each month on top of her premium.

Assuming Mary can overcome her diagnosis and with average U.S. life expectancy in mind, one can assume that Mary will live until the age of 80, meaning 13 years of premium payments.

This results in a total of \$5,079 just in penalties for the duration of her coverage.

Mary's Case Isn't the Worst It Can Be

According to the Medicare Rights Center, there have been reports of beneficiaries paying over \$50 per month in late enrollment penalties.

This isn't a miniscule amount of people who pay penalties, either – a recent report explains that over 700,000 Medicare beneficiaries paid part B late enrollment penalties in 2012.

Furthermore, an estimated 12% of the Medicare population lacks creditable drug coverage – that's over 6 million people. These are the beneficiaries who would be liable to pay a late enrollment penalty on their Medicare part D coverage if they choose to enroll, demonstrating the magnitude of this issue.

Table 2. **Medicare Penalty Chart**

Period	Penalty
Part A	Monthly Premium Increases by 10% for each full 12-month period that you could have Part A, but didn't sign up for it.
Part B	Monthly Premium Increases by 10% for each full 12-month period that you could have had Part B, but didn't sign up for it.
Part D	Multiply 1% of the "national base beneficiary premium" (\$34.10 in 2016) times the number of full, uncovered months you didn't have Part D or creditable coverage. Round the nearest \$.10 and add to premium.

Why Do People End Up Paying Medicare Penalties?

Clearly, Medicare penalties can have a drastic effect on a beneficiary. The next question to answer is why beneficiaries end up paying penalties.

“LACK OF KNOWLEDGE”

I just didn't know.

“LOW COGNITIVE ABILITY”

This is hard for me to understand.

“HIGH NUMBER OF PLANS AVAILABLE”

There are so many plans, I can't figure out which one to choose.

The first reason why a penalty might occur is simply a lack of knowledge.

In fact, a survey by the Kaiser Family Foundation and the Harvard School of Public Health has revealed that, at the time of Medicare part D institution, 46% of seniors said they didn't know if there were financial penalties for late enrollment. To add to this issue, the same survey revealed that 37% (most popular response) of Medicare beneficiaries said they were not planning to enroll in Medicare part D because, “It's too complicated”.

Another issue is the high number of prescription drug plans available.

The high number of drug plans available to Medicare recipients may lead a beneficiary to forgo a prescription drug plan until they need it. The same survey supports this as, even back in 2006 when there were less than 100 plans, 73% of Medicare beneficiaries responded that having many plans to choose from “makes it confusing and difficult to pick the best plan”. *Today there are over 1,100 plans.*

73% of Medicare beneficiaries say the number of plans available make it “difficult to pick the best plan.”

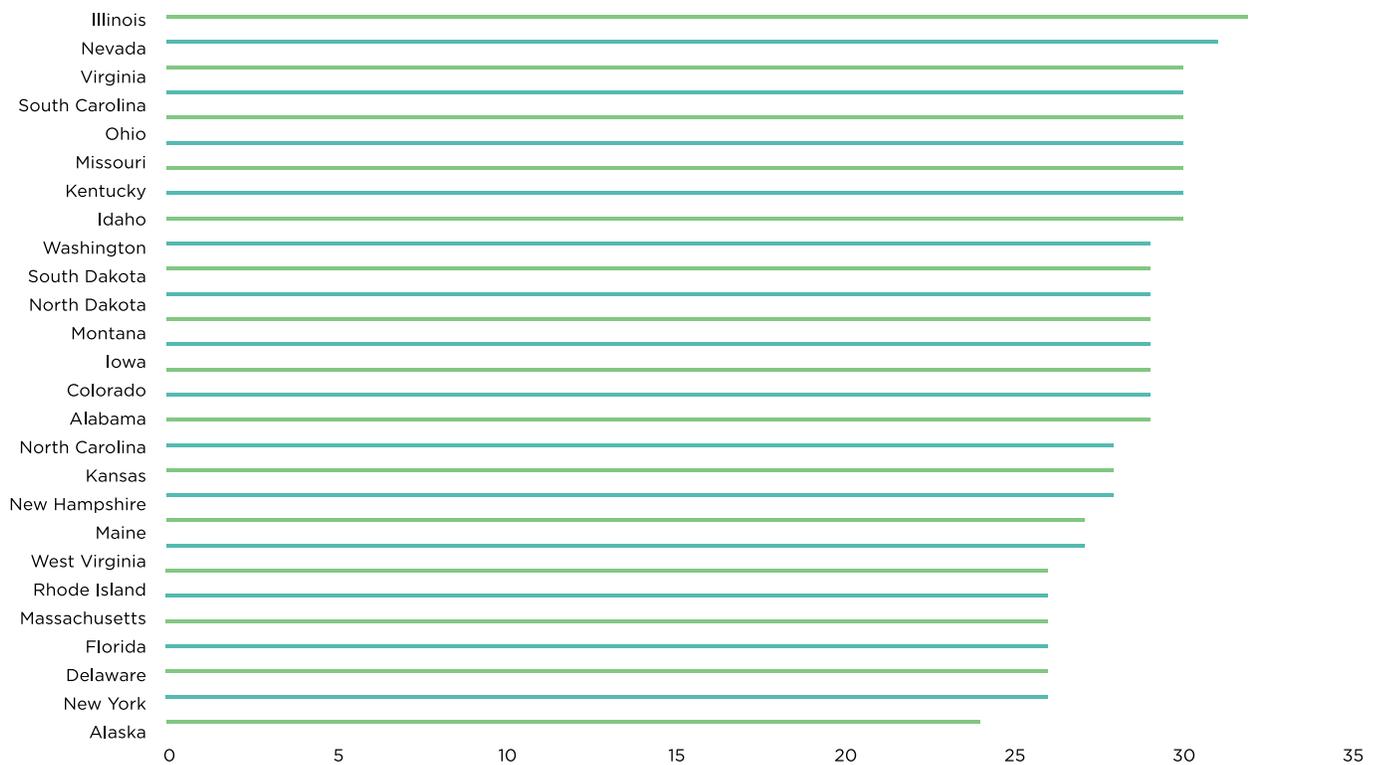
Lastly, those with low cognitive ability may suffer from the confusing process and number of options to choose from.

Other Studies have shown that those with low cognitive ability may be less likely to enroll in supplemental coverage because they generally have lower awareness of supplemental benefits.

The same logic can be applied to late enrollment penalties. Lower awareness of coverage requirements and enrollment periods puts people at a higher risk of paying a penalty.

Some might argue that the penalties aren't all so bad. In fact, many may willingly choose to forgo a prescription drug plan because they don't need prescription drugs at the time. The savings may seem beneficial in the short-term, but research indicates that even for healthy beneficiaries, lifetime out-of-pocket spending on drugs, premiums, and late enrollment penalties would be lower if they enrolled immediately.

Table 3. Number of Prescription Drug Plans



Summary & Potential Improvements

How can Medicare penalties be addressed going forward? Here's our take.

With 50 million enrollees and growing, the Medicare program is used by one in six Americans. Because of its widespread usage, problems that may seem small can quickly affect a large number of people in a drastic way. This is the case for Medicare's late enrollment penalties.

An additional \$12.18 per month in costs may seem small. But Medicare's penalties can compound across different "parts" of Medicare, and approach nearly \$50 per month.

As explained in this study, these penalties often remain in effect for the lifetime of the enrollee. Extrapolate a monthly penalty fee over the lifetime of a beneficiary's coverage, and it becomes clear how an individual can pay upwards of \$5,000 in excess fees while on Medicare.

With hundreds of thousands of recipients paying penalties annually, and millions more at risk, it's clear that something is causing many, many people to end up "out of bounds" on their Medicare enrollment.

With such harsh penalties, it's hard to imagine how so many people fail to enroll on time.

This study has addressed three possible reasons.

1. Unclear Medicare enrollment requirements.
2. A lack of information on Medicare.
3. Too many options to choose from, it becomes clear how a beneficiary might fall into this trap.

By addressing some of these issues, the amount of beneficiaries paying penalties may decrease, and those that still face penalties should be less frustrated by the process.

This isn't to say late enrollment penalties should be removed. In fact, many believe them to be a necessary precaution to avoid free loading. Instead, potential Medicare recipients should be made aware of the penalties they are up against, so they can make a proper, informed decision regarding their enrollment, and avoid massive penalties down the road.

For more information and to continue the discussion, visit us at Eligibility.com/Medicare.

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