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Illustration by Doug Ross

The first wave of baby boomers begins turning 65 in January. Many might prefer to ignore that milestone, especially since Social Security has raised the full retirement age to 66 for that cohort. But Medicare eligibility begins at 65, and it's important to get onboard immediately, even if you're still working.

If you're not careful when signing up for Medicare, you can blunder into decisions that could lock you out of certain types of coverage down the road and cost you thousands in extra premiums and out-of-pocket costs over your lifetime.

Here are the most important dos, don'ts, and action points.

Do sign up for Medicare before you turn 65

Even if you are working and have health benefits, you need to sign up for Medicare Part A, which covers hospital expenses. And *when* you sign up is important, especially if you need full coverage. The "initial enrollment period" for Medicare spans the three months before, the month of, and the three months after your 65th birthday.

But those months are not created equal. If you sign up during the first three months, your Medicare coverage starts at the beginning of your birthday month. If you sign up during your birthday month, coverage starts at the beginning of the following month. But if you sign up in the last three months, you'll face increasingly lengthy delays in the start of your coverage. So, for instance, if your birthday is June 15 but you sign up in September, your coverage won't start until Dec. 1.

If you are already on Social Security, Medicare will send you a reminder three months before your birthday and automatically sign you up. If not, you're on your own. "Go online or, better, to your local Social Security office and get enrolled," said Joe Baker, president of the Medicare Rights Center, a nonprofit consumer information group based in New York City.

Take action

Sign up for Medicare in advance of your birthday month.

Don't delay Medicare Part B signup after you stop working

"This is the biggest trap in the Medicare program," Baker said, and one of the most costly. Medicare Part A covers hospital expenses and is free to anyone who has paid Medicare taxes for more than a decade (or is married to someone who has). But there's a monthly premium (\$96.40 or \$110.50 in 2010 for most people) for Part B, which covers most other medical expenses except prescription drugs.

If you didn't sign up for Part B when you should have, you will be hit with a harsh penalty: a permanent increase in your premium of 10 percent for every year that you could have signed up but didn't. Most people should sign up either when they turn 65 or when they stop working, whichever comes later.

But there are special rules for certain groups, such as federal government employees. Check with your employee benefit manager to find out whether you are in such a group, confirm that information with Medicare and Social Security, and take notes on what everyone tells you.

There is one circumstance under which most people can delay enrolling in Part B without penalty: when they have health insurance through their own or a spouse's current job at a workplace with 20 employees or more. "Unless you or your spouse is actively employed, you need Part B, period," said Bonnie Burns, a Medicare policy specialist with California Health Advocates, a nonprofit consumer organization in Sacramento, Calif. "You'd be surprised at how many people don't know about this rule. Nobody tells them."

If your workplace has fewer than 20 employees, you must sign up for Part B as soon as you turn 65. Your employee health plan then becomes a secondary plan that kicks in after Medicare has paid its share of the bills.

Consumer counselors warn about these situations that often trip people up:

- You or your spouse retired before 65 and was covered by a company retiree plan. You must sign up for Part B, even if your retiree plan doesn't change. After you go on Medicare, the retiree plan becomes a secondary plan.
- You or your spouse went on COBRA. "A typical situation is that the older spouse is on Medicare but doesn't need Part B because the younger spouse is still working," Burns said. "Then the younger spouse stops working and goes on COBRA, and nobody tells them that the Medicare-aged spouse now has to go get Part B."

Take action

Sign up for Medicare Part B the minute you or your spouse stops actively working.

Do understand that the drug benefit has different rules

Part D, the Medicare prescription-drug benefit, is delivered exclusively through private plans with an average premium of about \$41 a month in 2011.

As with Part B, you will pay a permanent premium penalty for late enrollment, but for Part D it's 1 percent extra for every month that you could have enrolled but didn't. If you have low drug bills, you might feel that you don't need Part D right now, but you must weigh those savings against incurring a penalty later if you end up needing costly prescriptions and change your mind.

Your employee or retiree coverage will exempt you from the penalty if it has "creditable" drug coverage, meaning it's at least as good as a Part D plan. Your employer must give you an annual notice of whether your plan is creditable.

Take action

Sign up for Part D as soon as you are eligible unless you have creditable employee or retiree coverage.

Don't confuse original Medicare and Medicare Advantage

Original Medicare is the familiar government-run plan that has been around since 1965. It has some substantial deductibles and co-insurance (for example, a \$1,100 deductible for a hospital stay and 20 percent of outpatient doctor visits). People who don't have a secondary retiree plan from their employer usually buy a separate private Medigap policy to help with Medicare's deductibles and coinsurance. And they must buy yet another stand-alone plan if they want Part D.

Medicare Advantage plans are private plans that you can choose in place of original Medicare. Medicare Advantage plans now cover about one in four Medicare recipients. The vast majority of those plans are HMOs that require you to get your care within a local provider network. A Medicare Advantage plan substitutes for Part A and Part B (and in most cases also Part D). You can't buy a Medigap plan if you are on Medicare Advantage.

You'll probably pay a lower monthly premium for Medicare Advantage (which incorporates your Part B premium payment) than for Part B plus separate Medigap and Part D plans. But Medicare Advantage plans also have deductibles and co-pays. Because you won't have Medigap, you'll be paying those out of your own pocket. Whether Medicare Advantage is a better deal than original-Medicare-plus-Medigap-plus-Part D depends on a host of individual factors, such as your comfort level with managed care and your willingness to trade lower up-front premiums for the risk of higher out-of-pocket costs if you get seriously ill.

The problem, the experts told us, is that many consumers don't understand what Medicare Advantage is.

"People think they signed up for something on top of their original Medicare coverage, not in place of it," said Mary Ashkar, a staff attorney with the Center for Medicare Advocacy, a nonprofit consumer group in Mansfield Center, Conn. "They'll go out of network thinking Medicare will cover it. A lot of snowbirds run into problems when they get routine services while traveling."

#### Take action

Make sure you know whether you're enrolling in original Medicare or a Medicare Advantage plan.

#### Do find out how your retiree plan works with Medicare

Retiree health plans can take many forms, according to Rich Fuerstenberg, a partner in the health and benefits practice of Mercer, an international benefits consulting firm. Some employers offer stand-alone retiree plans, and some are the same as the active-employee plan; either type will pay secondary to Medicare. Some employers offer additional options such as private Medicare Advantage plans.

One major pitfall, cited by several of the experts we consulted, is to decline your retiree coverage to sign up for a Medicare Advantage plan. "If you leave your retiree plan for any reason, not all employers will let you re-enroll," Fuerstenberg said.

#### Take action

Before you sign up for anything, find out exactly how your retiree plan works with Medicare.

#### Don't accidentally lock yourself out of Medigap coverage

If you have a Medicare Advantage plan, federal law allows you to change to a new one every year without worrying about pre-existing conditions. But it's different for Medigap. State laws vary, but in most locations you have the right to buy a Medigap plan without medical screening only at certain times. Those include when you first sign up for Medicare Part B, when you lose your Medicare Advantage coverage because the plan shuts down or you move out of its service area, or when you lose your retiree coverage. If you are already in a Medicare Advantage plan, you can switch back to Medigap without medical screening only if you have been in the plan for less than a year. After that, you might be shut out of Medigap for good if you have developed a pre-existing condition.

#### Take action

To find out the rules for Medigap in your state, check with your State Health Insurance Counseling and Assistance Program. (Find your state's program at [www.shiptalk.org](http://www.shiptalk.org).)

#### Do recheck your Plan D formulary every year

All Part D plans have a formulary, a list of covered drugs. "Drug plans can change," Joe Baker said. "Not only can your drug drop off the formulary, but it could also move to another payment tier." Plans can also put new restrictions on drugs, such as requiring your doctor to get approval from the insurer before prescribing them. You can change to a new plan once a year if your old one made changes you don't like.

#### Take action

Use the interactive formulary finder at Medicare.gov to find out which plans in your area cover your drugs and in what payment tier.