

Medicare 101: What Your Paycheck Never Explained

What 1.45% of every dollar you earn actually pays for — and what it doesn't.

EVIDENCE-BASED

The Line on Your Paycheck

Every pay period, a number is deducted from your earnings labeled "Medicare." Most people have never been told what it funds, what it covers, or why it matters — until they or someone they love is suddenly dependent on it.

The Medicare tax is **1.45%** of every dollar you earn — matched by your employer (2.9% total). It's not a savings account. It's a promise to society: that when your parents, your grandparents, and eventually you reach 65, there will be something to help cover the cost of illness.

Most people find this out for the first time in a hospital waiting room.

65

Age most Americans become eligible for Medicare
CMS.gov

67M

People currently enrolled in Medicare
KFF, 2024

1.45%

Of every paycheck going to Medicare
IRSPub.15

\$0

What Medicare covers for long-term nursing home care
Medicare.gov

What the Other Lines Mean

Federal Income Tax

Funds the general operations of the U.S. government — the military, federal highways, education programs, federal courts, and disaster relief. It works on a progressive bracket system: your first dollars are taxed at a lower rate; higher earnings at higher rates. The amount withheld each paycheck is an estimate based on your W-4 — you settle the difference every April.

Social Security (OASDI)

OASDI stands for Old Age, Survivors, and Disability Insurance. Most people have no idea what those words mean — even though this deduction appears on every paycheck they've ever received.

- **Old Age** — the retirement benefit. You earn credits by working; at 62+ you receive monthly payments.
- **Survivors** — if you die, your spouse or dependents may receive monthly benefits. Life insurance most people don't know they're paying into.

- **Disability** — if you become unable to work due to a medical condition before retirement age, SSDI provides monthly income.

The rate is **6.2%** of your paycheck — matched dollar for dollar by your employer. That's 12.4% total going toward this promise every pay period.

State Tax

Varies by state. Funds state-level infrastructure, schools, Medicaid, police, fire, and local programs. Some states have no income tax at all.

What Is Medicare?

Medicare is the federal government's health insurance program for people 65 and older, and for certain younger people with disabilities. It's funded by payroll taxes (that line on your stub), premiums, and general federal revenue.

Part	Name	What It Covers
A	Hospital Insurance	Inpatient stays, skilled nursing (short-term), hospice, some home health
B	Medical Insurance	Doctor visits, outpatient care, preventive services, durable medical equipment
C	Medicare Advantage	Private plans that bundle A + B (and often D)
D	Prescription Drugs	Prescription drug coverage through private plans

What Medicare Does NOT Cover

This is the part that blindsides families. Medicare does **not** cover most long-term care — meaning the kind of care an aging parent needs when they can no longer bathe, dress, or live safely alone.

Medicare covers a skilled nursing facility for up to 100 days after a qualifying hospital stay — and even that comes with significant co-pays after day 20. It does **not** cover custodial care: bathing, feeding, supervision for dementia. That costs an average of **\$9,000–\$10,000/month** in 2024.

- No long-term custodial care
- No dental, vision, or hearing (under standard Medicare)
- No indefinite nursing home stays

Medicare vs. Medicaid

Medicaid is different from Medicare. It's a joint federal-state program for people with low income and limited assets. Unlike Medicare — which you earn — Medicaid is means-tested: you must qualify based on what you have.

Medicaid **does** cover long-term nursing home care for those who qualify. For many middle-income families, this means spending down assets until you're nearly impoverished before coverage kicks in. It's a brutal reality most

families only discover when they're in the middle of it.

	Medicare	Medicaid
Who qualifies	Age 65+ (or disability)	Low income / limited assets
How you qualify	Earned through payroll taxes	Means-tested (income + assets)
Long-term care	No (100 days max)	Yes, for those who qualify
Hospice	Yes — fully covered	Yes, if eligible

Who Pays for Aging?

The average American turning 65 today will need an estimated **\$157,500** (individual) to **\$315,000** (couple) to cover out-of-pocket healthcare costs in retirement — not including long-term care.

Long-term care insurance can help, but fewer people are buying it as premiums rise. Many families end up as informal caregivers — sacrificing careers, savings, and health — because the system was never explained to them before the crisis arrived.

Why This Matters for Hospice

By the time a family is sitting with a hospice nurse, they've often just learned that Medicare does cover hospice — fully — with no copays for medications, equipment, or nursing visits related to the terminal diagnosis. It's one of the most generous benefits in the Medicare program. And most people have never heard of it until they're in crisis.

The Medicare Hospice Benefit covers:

- Nursing visits
- Medications related to the terminal diagnosis
- Durable medical equipment (hospital bed, wheelchair, oxygen)
- Social worker support
- Chaplain/spiritual care
- Home health aides
- Bereavement support for the family (13 months after death)
- Respite care (up to 5 consecutive days for caregiver rest)

If you need someone to talk to right now:

NHPCO Grief Support: 1-800-658-8898 | 988 Suicide & Crisis Lifeline: Call or text 988

Sources

1. CMS.gov — Medicare Program Overview — <https://www.cms.gov/Medicare/Medicare>



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3. KFF — Medicare Enrollment Data (2024) — <https://www.kff.org/medicare/>
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6. Fidelity Retiree Health Care Cost Estimate — <https://www.fidelity.com/viewpoints/personal-finance/plan-for-rising-health-care-costs>

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