

Health care options in retirement

By Elaine Floyd, CFP®

While you were working, you likely relied on employer insurance. But after retirement your options are different, and that requires careful planning.



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Some 58% of people in the U.S. today get their health insurance through an employer, either their own or a spouse's (or a parent's, if under 26). Employers usually subsidize the premiums, so employees generally pay far less than the full cost of the insurance. Premiums for family coverage averaged \$20,576 in 2019, according to the Kaiser Family Foundation 2019 Employer Health Benefits Survey, but employees paid just 30% of that, or \$6,015 (\$501 per month). The subsidy was even greater for single coverage: employees paid just 18% of the \$7,188 annual premium, or \$1,242 (\$103 per month). These are averages, so your situation could be different.

Retirement before age 65

If you retire before the Medicare-eligible age of 65, you may have several options:

Retiree insurance. Only 28% of large firms offered retiree insurance in 2019, compared to 66% in 1988, according to the Kaiser survey. Of those that do offer retiree insurance, it's mainly for early retirees (91%), as opposed to Medicare-eligible retirees (61%). Because of the employer subsidy and quality of the coverage, retiree insurance is usually a good deal, for those lucky enough to have access to it.

A spouse's plan. If you lose employer coverage due to retirement but your spouse is still working, you may be able to get onto his or her plan. Again, the employer subsidy and quality of coverage usually make this a good deal. If both retiree insurance and spousal coverage are available, compare the two. Consider premiums, deductibles, co-payments, and coinsurance to determine potential out-of-pocket costs under each plan.

Individual insurance. If employer insurance is not available, you can buy individual insurance on the exchanges. It won't be

cheap. The average unsubsidized premium for a silver plan for a 60-year-old is \$1,140 per month. For a gold plan it's \$1,300.

Once an early retiree turns 65, he becomes eligible for Medicare

If you had chosen retiree insurance, you will now enroll in Medicare Parts A and B at 65. If you can stay on the retiree plan, it can serve as supplemental insurance (plan terms will change now that Medicare becomes the primary payer). If a medical bill is incurred, Medicare will pay first according to its plan limits, and the retiree plan may fill in some of the gaps, such as the deductible and the 20% coinsurance. If the retiree plan also offers creditable prescription drug coverage, you may not need to enroll in Medicare Part D (the plan will let you know if Part D enrollment is necessary) and may get better coverage than Part D plans available on the open market. (But it never hurts to shop around to be sure.)

If you are on a spouse's plan when you turn 65, and if your spouse is still working, you may remain on the employer plan. If the plan covers 20 or more employees and is a good plan, with an employer subsidy and comprehensive coverage, you do not need to enroll in Medicare at age 65. You can stay on the employer plan and delay enrolling in Medicare until you go off that plan.

However, once you turn 65, you CAN enroll in different parts of Medicare depending on how it rounds out (or replaces) the employer plan. For example, you can enroll in Part A only, which is free and may offer better hospital coverage than the employer plan. You might even enroll in Part B and pay the monthly premium (\$144.60 in 2020), especially if the plan deductible is rather high. (The Medicare Part B deductible is only \$198 in 2020.) Depending on your drug regimen,

you might find a Part D drug plan on the open market that beats the employer's drug coverage. (Note: if you enroll in Part D you must also enroll in at least Part A.) Each part should be looked at separately, and the employer plan compared to plans available on the open market.

There are two caveats: 1) If the employer plan is paired with a Health Savings Account (HSA), once you enroll in Medicare there can be no further HSA contributions. (Note: Because Medicare offers better coverage than the high-deductible plans that are usually paired with HSAs, it may be worth giving up the HSA to get Medicare.) 2) The Part B monthly premium may be more than \$144.60 if your joint income is over \$174,000 and subject to the income-related monthly adjustment amount (IRMAA). Be sure to take these additional costs into account.

If you have individual health insurance when you turn 65, you will likely be ecstatic to go onto Medicare. You should apply for Parts A and B three months before your 65th birthday; Medicare will go into effect on the first day of the 65th birthday month. You need to decide whether you want Original Medicare with a Medigap plan and standalone drug plan, or a Medicare Advantage plan, and do the required shopping in time to enroll in the chosen plan(s) by the first of the month that you turn 65.

Retirement at or after age 65

If you are still working when you turn 65, you may stay on the employer plan if it covers 20 or more employees. It is illegal for employers with 20 or more employees to force age-65 employees onto Medicare by offering them a lesser plan than the one offered to younger employees. But now that Medicare is available, you should compare the employer plan to Medicare. Whereas the employer plan is subsidized by the employer, Medicare is subsidized by the government.

In most cases the health care itself—that is, where you seek health care services—need not change. What's different is who pays and how much they pay. Actually, with health care pricing as crazy as it is, no one really knows how much insurance pays. That's why our focus is on how much you pay—that is, how much you will pay out-of-pocket for premiums, deductibles, copayments, coinsurance, and the full cost of noncovered services and drugs.

Note: If you are covered by a plan that covers fewer than 20 employees when you turn 65, you need to enroll in Medicare. Plans that cover fewer than 20 pay secondary to Medicare, and you must be enrolled in Medicare in order for the plan to pay its share. In other words, if Medicare does not pay primary (because the you are not enrolled in Medicare), the plan may not pay anything at all. Some of these plans

volunteer to pay in the absence of Medicare, but they are not required to do so, and they could back out of that agreement at any time. After enrolling in Medicare, check with the insurer to see if it offers a plan that can serve as Medicare supplement insurance; then compare that plan to what you can get on the open market.

What about your spouse?

Before going into the analysis between employer plans and Medicare, the first thing to check is the spouse's coverage under either option. Is your spouse on your plan? Do you need to stay on the employer plan in order for your spouse to be covered? If you go off the employer plan and onto Medicare, does your spouse have other options, such as her own employer insurance? The spouse may be able to go onto COBRA for as long as 36 months after you leave the plan to go onto Medicare, but this would require her to pay the full, unsubsidized premium. Also, COBRA may not be available if the employer plan covers fewer than 20 employees. If your spouse's only option would be individual insurance under the ACA, those extra costs would need to be factored into the analysis.

Compare employer plan to Medicare

Employer insurance is generally considered to be more comprehensive than Medicare, and many people simply assume they will stay on the employer plan after age 65 if they are still working. But it behooves everyone turning 65 to compare the employer plan to what they can get on the open market with Medicare.

For example, the average employer plan in the Kaiser survey has a cost-sharing premium (i.e., the employee's share) of \$103 per month and a deductible of \$1,655. The average copayment is \$25 to see a primary care physician and \$40 to see a specialist. If outpatient surgery is needed, the average coinsurance rate is 19% and the average copayment is \$180. If hospitalization is needed, the average coinsurance rate is 20%; the average copayment is \$326 per hospital admission, and the average per diem charge is \$475. For prescription drugs the average copayment is \$11 for first-tier drugs, \$33 for second-tier drugs, \$59 for third-tier drugs, and \$123 for fourth-tier drugs.

What makes employer insurance hard to analyze is that out-of-pocket costs will depend on how sick you could get. A healthy worker whose plan allows for no-cost screenings and checkups could conceivably pay no more than the monthly premiums—\$1,188 per year, on average. At the other extreme might be a serious health event that pushes you into the plan's out-of-pocket maximum of \$7,350 (the maximum for non-grandfathered plans under the ACA).

Medicare, when supplemented with additional insurance, is designed for people to be sick. The monthly premiums are higher, but when you are fully covered, out-of-pocket costs are minimal. For \$375 per month (\$135.50 for Part B, \$200 for Medigap Plan F and \$40 for a drug plan), or \$4,500 a year, pretty much all health care costs are covered, except for the things Medicare doesn't cover, such as dental, vision, and hearing. It is possible to pay less with a Medicare Advantage plan—some plans have zero premiums but charge copayments or coinsurance if services are utilized. Medicare may cost more if you are subject to the IRMAA.

Medicare and HSAs

What if the employer plan is a health savings account (HSA) paired with a high-deductible health plan (HDHP)? These plans are definitely designed for healthy people: the premiums are low, and if little or no health care costs are incurred, the money can stay in the HSA to keep growing tax-free. However, under IRS rules, HSA contributions cannot be made for a person enrolled in Medicare. This means healthy workers who love their HSAs should not enroll in Medicare.

But once you start any kind of Social Security benefit, you are required to enroll in Part A and HSA contributions must stop. This means everyone age 70 or older—assuming you don't want to leave Social Security money on the table—may not contribute to an HSA. If you were born before January 2, 1954 and file a restricted application for spousal benefits when you turn full retirement age, you may also want to give up your HSA in exchange for the Social Security income. You can keep the HSA and use it for qualified medical expenses; you just can't contribute to it after starting Social Security and going onto Medicare.

If you choose to stay on your employer plan after age 65, you should periodically re-evaluate the plan in light of Medicare availability. Worsening health, or a change in the employer plan, could subject you to hefty coinsurance amounts. You can switch to Medicare at any time after turning 65. You do not need to wait until leaving employment. Each year, when you are presented with your employer plan options, look also at Medicare to see how it compares.

Time your retirement

Eventually, nearly everyone enrolls in Medicare (unless they keep working forever). As you prepare to retire, plan to have your

Medicare start when the employer coverage ends so there are no gaps in coverage. This means enrolling in Medicare three months before you want it to start and lining up supplemental insurance and a drug plan (or Medicare Advantage plan) so it starts at the same time. Although terminating employees can take advantage of COBRA to maintain employer coverage for up to 18 months, this is not a good idea. For one, unsubsidized COBRA premiums are much higher than the government-subsidized Medicare premiums, even when supplemental insurance is added. Also, the special enrollment period that allows people over 65 to delay enrollment in Medicare ends 8 months after leaving employment. Someone who comes off COBRA after 18 months will be outside his special enrollment period and will need to wait until the next general enrollment period (January 1 to March 31) to enroll in Medicare, and coverage won't start until the following July. HR people often advise terminating employees to go onto COBRA; over-65 people should go onto Medicare instead.

Again, consider your spouse. If he or she has been covered on your plan, and if you retire and go onto Medicare, your spouse will need to arrange for separate insurance. As noted above, your spouse may have her own employer insurance. Or she may be over 65 and eligible for her own Medicare. Or she might go onto COBRA or buy her own health insurance in the marketplace. Just make sure your spouse gets his or her insurance lined up before you retire.

Health insurance plays a key role in the retirement decision, and financial advisors can perform an extremely valuable service by helping you explore your options. This means not only laying out the different possibilities for maintaining coverage, but also using this information to inform the date of retirement (is there a need to keep working to keep health insurance?) and the post-retirement spending plan. Americans coming off employer coverage are not used to paying for the full cost of health insurance. And because the premium-sharing amounts have been coming out of your paycheck, you might not be used to budgeting for health insurance. The time to address these issues is BEFORE you set your retirement date.

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