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HEALTH HEALTHCARE

Retiring Before 65? Make Sure to Know Your Healthcare Options

Leaving work four years before starting Medicare can drain $100,000 or more from retirement savings. It pays to consider all the possibilities.

By Gail MarksJarvis

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Retiring before 65, whether by design or dictated by circumstance, is a reality for many Americans. And health insurance for these early retirees is often more costly than they think—and a reality check.

For a couple, premiums for coverage can run from $1,700 to $2,200 a month depending on where they live, their age and the source of the insurance. And besides premiums, there are deductibles, copays and prescriptions and coinsurance costs—potentially adding thousands of dollars more in extra costs.

The upshot: Leaving work just four years before starting Medicare at age 65 can easily drain $100,000 or more from retirement savings.

What's more, some insurance options have a limited local network and might not include preferred doctors or allow participants to see a specialist without a referral. And many don't cover expenses incurred out of state unless it is an emergency, a potential deal breaker for a retiree who wants to spend winters in a warmer climate.

"It's a real shock for people," says Milwaukee financial planner Ben Smith. "They naively think their health insurance will be identical to what they had at work."

For those who can't return to work, Smith adds, "the reality of a huge new expense leads to some very challenging conversations" about running short of money or cutting out retirement luxuries like travel and entertainment.

Here are some options for early retirees to get the level of care they desire and to minimize health-insurance costs early in retirement before Medicare kicks in.

Employer coverage

The cheapest option for a couple is to stagger retirements and have one keep working so both can rely on a workplace plan until Medicare becomes an option at 65. Workplace plans tend to be subsidized, with the employer paying about 83% of the cost of coverage for the employee on average, according to the Kaiser Family Foundation. For family coverage, the employee must pick up an additional share of the expense.

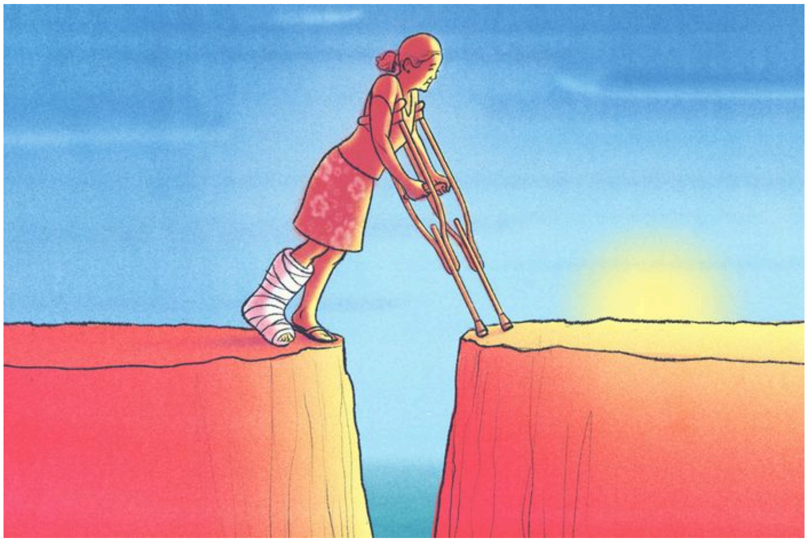
Workplace plans typically also have more extensive coverage options than buying private insurance as an individual.

But that approach isn't always feasible if you're single or if neither partner wants to delay retirement. So another way to stay on a workplace plan and stay retired is through so-called Cobra coverage, which allows workers at many companies the right to continue health benefits for as many as 18 months if they leave their job under certain circumstances such as voluntary or involuntary job loss, reduction in hours worked or other life events.

Cobra coverage will cost more than if you are employed, with many employers requiring such plan participants to pay full fare, plus a 2% administration fee. However, the Cobra option will allow you to keep your preferred doctors as you consider what to do next.

The average Cobra premium for a family recently ran about $25,000 a year, including the 2% fee, according to the Kaiser Family Foundation. That compares with an average of $6,775 a year the employee was accustomed to paying through paycheck deductions.

The Cobra coverage option can also make sense for those who leave a job midyear or later and have already paid a significant portion of their annual deductible, says Jennifer Chumbley Hogue, a health-insurance agent in Dallas. Otherwise, you may incur a new deductible and other costs for the same year under a new insurance plan.



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ACA coverage

While using Cobra may be a good stopgap, moving to insurance through the Affordable Care Act marketplace is usually far less expensive because most people qualify for subsidies thanks to recent regulatory changes by the Biden administration to guide more people onto the program. Even people with more than $200,000 in income qualify in some parts of the country, and income typically plunges after leaving a job.

The ACA program includes four tiers of coverage: platinum, gold, silver and bronze. The bronze plans have the lowest premiums, silver next, then gold and platinum.

Financial planners sometimes say silver is the best value, but that isn't always the case once all potential out-of-pocket costs are compared, says Chumbley Hogue. Subsidies can be examined with the Kaiser Health Insurance Marketplace Calculator.

Nationally, the average 63-year-old couple with a $150,000 income would get a $13,689 subsidy to significantly reduce the $26,439 premium on a silver plan.

Subsidies vary by location and income. A family of four with an income up to $45,000 wouldn't have to pay a premium for a silver plan. In New York City, a 63-

year-old couple with an income of $250,000 could qualify for a small subsidy to reduce their premium.

Beyond cost considerations, ACA plans are more user-friendly than other private options because they won't disallow coverage based on pre-existing conditions and can't deny coverage or boot policyholders if they become sick after buying the insurance.

Still, retirees who choose this route aren't home-free after paying premiums. The plans have deductibles and other requirements like copays and coinsurance for doctors, hospitals and prescriptions.

For example, the 63-year-old couple in the average $26,439 silver ACA plan could have to pay additional doctor and hospital charges up to a maximum of $18,900 a year. If they want to go outside their network for a specialist or hospital that is highly rated for specialized care, their out-of-pocket expenses could be much more.

Marisa Bradbury, a financial planner in Lake Mary, Fla., had a client who had depended on a particular cardiologist for a heart problem, but the ACA insurance plan he bought when he retired in his early 60s wasn't going to let him see the specialist.

If he continued to see his cardiologist, she says, "he would have had to pay on his own" and that threatened to upend his retirement-financial plan. He decided to switch to the cardiologist his plan would allow, and then switched to a pricier plan that included his preferred cardiologist at the end of the year when the ACA system allows people to pick another plan.

Private coverage

Early retirees who don't qualify for a subsidy can still buy private insurance through the ACA marketplace, and it is smart to do so even though it will cost full price and is likely more expensive than non-ACA private insurance, says St. Petersburg, Fla., insurance agent Peter Motzenbecker.

That is because there are few private plans available anymore outside the ACA system, and those that remain often don't have the pre-existing condition coverage provisions that ACA plans do. In other words: ACA plans don't screen people for their health before insuring them. And whenever people are insured through the ACA marketplace, they will be covered even if an illness stems from a past condition.

Private plans frequently deny coverage if they determine a person's malady stemmed from a condition that existed before they bought insurance.

Motzenbecker says he doesn't think the lower monthly premiums on private plans without ACA backing are worth the risk of getting denied later. Yet, he adds, low premiums can attract healthy people willing to bet they will stay healthy.

He compares two plans with similar coverage but different premiums. A United Healthcare private plan in Florida has a monthly premium of $1,464, while a similar Blue Cross/Blue Shield ACA plan charges $2,347. They have similar deductibles—over $14,000 for couples.

But the private UnitedHealthcare plan is available only to people who join the Federation of American Consumers & Travelers, a group that negotiates discounts on an array of products. And the insurance plan states that it can consider pre-existing conditions and that it will also stop paying patient bills if charges go over $2 million over a lifetime. That is a high amount, Motzenbecker says, but possible in the event of a serious accident or illness like cancer. ACA plans never stop covering care.

"That's why I don't recommend non-[ACA] marketplace plans for anyone in their 60s," he says.

The denial-of-care risk also applies to private plans that last for only a few months, says Christine Simone, chief executive of Caribou, a firm that helps financial planners compare health plans. Such plans are called "short-term" or "skinny" policies, and people sometimes buy them when they lose a job and need insurance for just a few months before taking a new job or going on Medicare.

Short-term plans are far less expensive than Cobra coverage as a stopgap for someone who leaves the workforce unexpectedly, Simone says, but she calls them “a gamble.” Although you have to pass a health screening to qualify for a short-term plan, a provider could refuse coverage for a condition by deeming it pre-existing.

Depending on the short-term plan, there can also be caps on coverage, such as $1,000 for a hospital stay. That can leave an individual short of what will be needed if, for example, he or she has a heart attack and has to be hospitalized at a cost that can easily be in the tens of thousands of dollars.

“It’s a misconception that private insurance outside the [ACA] exchange is better,” says Chumbley Hogue, the Dallas health-insurance agent,

Last resorts

Another route to reduce coverage costs for those who have lost their job for health reasons could be through a Social Security disability designation.

Such a designation would allow a person to get Medicare coverage before age 65, but Chumbley Hogue warns that the process can take months and Medicare often doesn’t start until 24 months after a person is deemed disabled.

One other alternative advisers suggest is to find work at a business that provides health insurance to part-time workers. Such companies include Starbucks and Trader Joe’s, according to career website Indeed.com.

Given employers’ typical contributions to health insurance, an individual working part time for a large company might have to pay about $119 a month for health insurance, according to Kaiser Family Foundation Vice President Cynthia Cox.

This strategy worked for one client of Dallas financial planner Jennifer Grant. The client, a banker in his mid-50s, wanted to retire early but was advised that paying for health insurance on his own for about 10 years could harm his retirement portfolio’s ability to last—especially if a bear market struck.

His solution: He loved running and went to work part time selling running shoes at an REI store that provided insurance.

“It was like a hobby for him,” she says. “He socialized, talked with people about running and there was no stress.” And he got affordable insurance to bridge the gap to Medicare.

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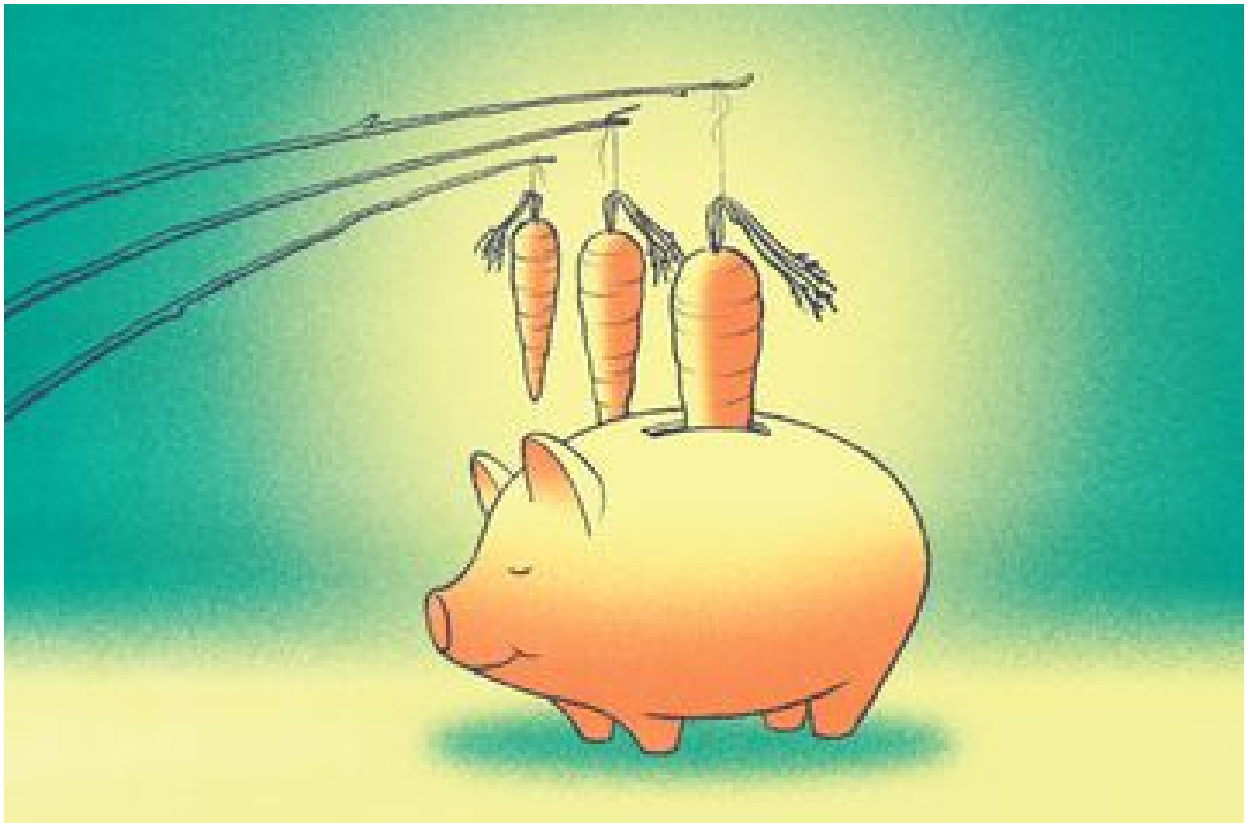

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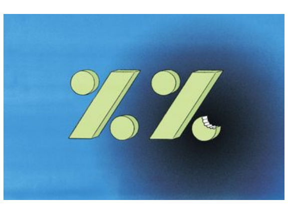

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