



Bridging the gap with early retiree health insurance

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Are you considering early retirement? Since Medicare isn't available until you are 65, you'll need to find another way to cover medical, hospitalization, and prescription drug costs until you become Medicare-eligible. Finding the best coverage option that's affordable is no small matter: Health insurance premiums and medical expenses can make up a considerable chunk of your post-retirement budget. And if you're choosing to retire early, remember that a 55-year-old needs to plan for ten more years of healthcare spending than a 65-year-old.

Proactive health insurance planning is absolutely essential if you want to keep your healthcare costs as low as possible. Reviewing all the available alternatives will help ensure that you make wise decisions and move into retirement with confidence.

Examining your healthcare insurance options

Fortunately, there's no shortage of health insurance options for retirees before they're Medicare-eligible:

Group Retiree Coverage

\$-\$\$

If your employer offers a continuation of coverage to its retirees, this may be the optimal choice. Employers that provide this type of benefit are typically large companies, schools and universities, and governmental entities. Common practices include an offer of coverage for a fixed period of time or until the former employee becomes Medicare-eligible.

You may be able to continue coverage at the same contribution levels you had as an employee. However, be advised that employers can take a different approach to covering the premium payments for a spouse and/or dependents than when you were employed. Make sure you understand what applies in your situation along with any service date and age requirements for eligibility.

Key takeaways



Medicare isn't available until you are age 65. If you are retiring early, you will need to explore insurance options to cover medical, hospitalization, and prescription drug costs.



Proactive health insurance planning is necessary to keep your healthcare costs as low as possible while getting the optimum plan coverage.



The best early retirement health insurance option for you will depend on factors such as how early you retire and your health history, current healthcare needs, and retirement budget.

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Health insurance marketplace	\$\$-\$\$\$
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In 2010, the Affordable Care Act (ACA)—also known as Obamacare—created the Health Insurance Marketplace or Exchange. The Exchange provides health insurance options that deliver a threshold of minimum value and affordability levels tied to income. Although premiums have increased from early levels, Exchange options are still more affordable than obtaining an individually-rated policy subject to a limited lifetime maximum and pre-existing conditions.

If you lose your job-based coverage when you take early retirement, you qualify for a Special Enrollment Period outside the standard Open Enrollment Period. A retiree can sign up for coverage through designated enrollees or via the government’s website during the Special Enrollment Period any time from 60 days before to 60 days after the separation date.

A significant advantage of Obamacare is that everyone has access to buy health insurance with no health questions asked. Coverage would be available even if you had a pre-existing condition, an especially useful feature for early retirees who are facing some sort of health issue.



Federal tax credits are available to subsidize insurance premiums. However, your income must be below certain levels to qualify for these. This can be explored on [healthcare.gov](https://www.healthcare.gov). Expect costs to vary by age, state, insurer, plan level, and year-over-year. As is customary with health insurance, the less you pay on a monthly basis, the more you’ll pay when you need services. These costs could be in the form of deductibles, copays, coinsurance, or simply for medical expenses that your health insurance doesn’t cover. You could plan to use the Exchange until you are 65 and eligible for Medicare.

Consolidated Omnibus Budget Reconciliation Act (COBRA)	\$\$-\$\$\$
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You may still be eligible for benefits from your company’s group plan for a limited period of time after you retire. Employers with 20 or more employees are required to allow certain former employees and/or their spouses or dependents to elect to continue their health insurance. Some states also require smaller employers with 2–19 employees to permit similar elections, called mini-COBRA.

Coverage under COBRA may remain the same as when you were employed. However, employers rarely subsidize COBRA premiums, which means that you could be paying the full premium yourself. Self-funded employers are allowed to charge an actuarially-established premium equivalent rate plus a 2% administrative fee. In addition, COBRA is not available if an employee is terminated due to gross misconduct.

While COBRA is going to be more expensive than if you were employed at a company, it is still less expensive than paying for health insurance on your own.

Coverage under COBRA is available for a relatively short period of time, typically 18–36 months. Thus, it is only a short-term solution, and a retiree will need to seek other coverage if COBRA benefits are exhausted before they are 65.

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Coverage Obtained through Spouse's Employer-Sponsored Health Plan	\$-\$\$
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Although most couples seek to align their retirement dates, not all couples do. Don't overlook spousal benefits under a still-working spouse's health insurance plan. A pre-65 retiree is frequently afforded the option to remain on a working spouse's employer-sponsored health plan, which can be the simplest and most cost-effective option. However, if the timing of your early retirement plans is aligned, you'll need to look into one of the other options to bridge the gap for health insurance coverage until you become eligible for Medicare.

Private insurance	\$\$-\$\$\$
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If you are relatively healthy, you should review your options in the private insurance marketplace. Private insurance policies may offer the most comprehensive and flexible alternatives, but these plans may end up costing you more money. It doesn't hurt to take a look at the private insurance options and do some comparison shopping.

Part-time job with benefits	Variable
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An increasingly popular option, a job at a company that offers healthcare coverage for part-time employees can help bridge the gap from early retirement to Medicare age. You can still retire but find a less stressful job somewhere that offers healthcare benefits to both full- and part-time employees. Some companies may have a 20 hour/week minimum for eligibility.

Healthcare sharing programs	Variable
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These programs are defined by a group of like-minded people banding together to help pay each other's medical expenses. The most well-known healthcare sharing programs are Christian-based, and a belief in the Christian faith is required to participate. Healthcare sharing programs are able to be formed based on legal religious exemptions, and they are less expensive than many other options. However, there are some risks, such as developing a chronic condition later on. In that case, you may be able to buy an Affordable Care Act policy on the Exchange.

Finding the best healthcare coverage option for you

If you plan to retire before age 65, you'll want to research your early retirement health insurance options and obtain coverage until you can begin Medicare. Take the time to shop around and compare options: The early retirement health insurance plan that is best for you will depend on a number of factors, including how early you expect to retire and your health history, current healthcare needs, and retirement budget.



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Comparison of Major Insurance Alternatives				
Group Retiree Coverage	COBRA Continuation	Spouse's Health Plan	Health Insurance Marketplace	Private Insurance
\$-\$\$	\$\$-\$\$\$	\$-\$\$	\$\$-\$\$\$	\$\$-\$\$\$
<ul style="list-style-type: none">• Not offered by all employers.• Coverage may be the same as when the individual was employed.• Employers may have a different approach to covering the premium payments for a spouse and/or dependents.	<ul style="list-style-type: none">• Few employers subsidize COBRA; you may pay the full cost of coverage.• Coverage period lasts only 18–36 months.	<ul style="list-style-type: none">• Not all employers offer this benefit.• Not an option if both spouses plan to retire at the same time.	<ul style="list-style-type: none">• Your former employer might provide a reimbursement account that can help you afford the cost of these plans.• You may qualify for federal tax credits to subsidize insurance premiums if your income is below a certain level.• No limitation on pre-existing conditions.	<ul style="list-style-type: none">• Your former employer might provide a reimbursement account that can help you afford the cost of these plans.• Provides the most flexible and comprehensive options.

For more information, please contact your Key Private Bank Advisor.



About the Author

As a senior financial planner with Key Private Bank, Tina offers her clients sophisticated financial planning advice and a comprehensive set of strategies to grow and preserve their wealth. She collaborates with her team's Relationship and Portfolio Managers, coordinates strategies with attorneys and accountants and follows up on a regular basis to ensure the plan is performing optimally. Tina received the 2016 Exceptional Service Award from the Cleveland Estate Planning Council and 2016 and 2018 Circle of Excellence Award by Key Private Bank.

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