

KITCES MONTHLY WEBINAR SERIES

# Retiree Health Insurance After 65: Medicare, Private Insurance, & Health Care Budgeting

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Horseshmouth



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## Laurie's Story

- Turned 65 in March 2011
- Had individual health plan: Was paying \$800/month for \$1,500 deductible policy
- Knew nothing about Medicare
- I had to guide her:
  - First, decide on supplemental insurance
  - Then, choose drug plan
  - Finally, enroll in Medicare 3 months before March 1
  - Needed **at least** 5 months lead time



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## Elaine's Story

- Same as Laurie's, 3 months later
- Opted for Medigap to get guaranteed issue during 6-month enrollment period
- One year later, enrolled in Medicare Advantage plan
- One year later, changed mind and went back to Medigap for guaranteed issue
- Pros and cons of Medigap vs. Medicare Advantage

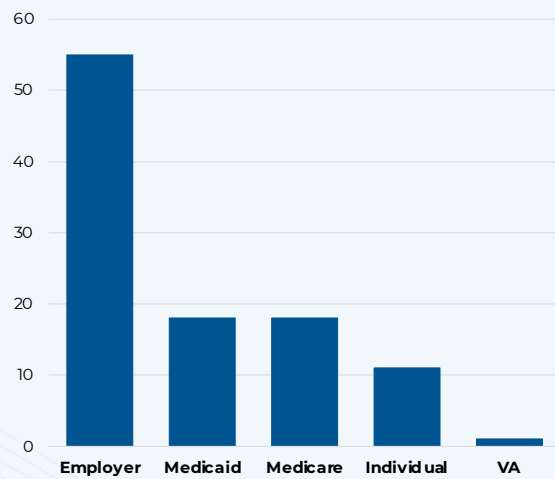


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## Who Provides Health Insurance In The U.S.?

Percentage of the population covered by each type of plan.

Source: U.S. Census Bureau, Health Insurance Coverage in the United States, 2021



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# Making The Transition From Employer Insurance To Medicare

- Medicare is THE health insurance system in the U.S. for people aged 65 and older.
- All private health insurance is built around the idea that everyone age 65+ will enroll in Medicare at some point.
- **If retiring before 65:  
Must enroll in Medicare at 65**
- **If retiring after 65:  
Must enroll in Medicare at retirement**



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Issue #1

# Making The Transition From Employer Insurance To Medicare



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## Why It's A Problem

- **People don't know** when they can, should, or must enroll in the different parts of Medicare
- No one is advising them
  - HR doesn't know
  - Health insurance is product driven: group plan agents don't sell Medicare
- Consequences of doing it wrong
  - **Coverage gaps:** clients get stuck with medical bills after the fact
  - **Late enrollment penalties**

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## Your Role

- **Facilitate smooth transition** to Medicare at the **proper time**
- **Know the rules** about who must enroll in Medicare and when

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Issue #2

# Not Getting The Right Private Insurance To Go With Medicare



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## Why It's A Problem

- Medicare alone is not enough
  - **High deductibles** for Part A
  - **20% coinsurance** for Part B
  - **No limit** on out-of-pocket costs
- Supplemental insurance is provided by private insurance
  - Medigap: benefits are standardized but prices are not – people are **paying too much**
  - **Part D plans vary widely** – must find the right plan for the drugs you are taking (or not)
  - **Medicare Advantage tricks and stunts** – narrowing networks, reducing benefits, raising premiums



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## Your Role

- Tell clients they will **need supplemental insurance** to go with Medicare
- **Help them decide** between 1) original Medicare + Medigap + Part D plan, and 2) Medicare Advantage
- Shop for supplemental insurance **5 months before** enrolling in Medicare
- Refer client to licensed agent or State Health Insurance Program (SHIP)

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Issue #3

# Not Understanding How Much Health Care Will Cost In Retirement



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## Why It's A Problem

- Employer has been subsidizing premiums: after retirement, clients are **on their own**
- Premium sharing comes out of paycheck; clients **not used to budgeting** for health insurance
- Many people think Medicare is free and covers everything
- Clients **don't think about** health care when planning for retirement

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## Your Role

- Help clients **estimate first-year health care costs**
  - **Premiums** for Medicare and private insurance
  - **Out-of-pocket costs** for noncovered services
- Build **inflation** into the budget
- Make a plan for **long-term care**

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# Pre-Medicare Planning Caveats






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**Caveat #1**

## Your Doctor Might Not Accept Medicare

- Most doctors do accept Medicare, especially for existing patients who go onto Medicare
- If client chooses to get Medicare through a Medicare Advantage plan, the doctor might not be in the network
- The bottom line: the transition to a different health care system (Medicare) could mean a change in providers



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Caveat #2

## Medicare & HSAs

- No contributions to Health Savings Account (HSA) after enrollment in Medicare
- Once Social Security starts, Medicare enrollment (Part A) is automatic and HSA contributions must stop
- If not receiving Social Security, can defer Medicare to keep making HSA contributions
  - Compare HSA/High Deductible Health Plan (HDHP) to Medicare (benefits and costs)

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Caveat #3

## High-Income Clients Pay More For Medicare

- If still working, Medicare might cost more due to the Income-Related Monthly Adjustment Amount (IRMAA)
- Once retired, can appeal the IRMAA—remember to help clients do this!

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## 2023 Monthly Premiums Parts B & D

MAGI Single	MAGI Joint	MAGI Married Filing Separately	Part B Monthly Premium Paid to Medicare	Part B Income-Related Adjustment Amount Paid to Medicare	Part D Income-Related Adjustment Amount Paid to Medicare	Total Parts B & D Premium
≤ \$97,000	≤ \$194,000	≤ \$97,000	\$164.90	\$0.00	\$0.00	\$164.90
\$97,001 - \$123,000	\$194,001 - \$246,000		\$164.90	\$65.90	\$12.20	\$243.00
\$123,001 - \$153,000	\$246,001 - \$306,000		\$164.90	\$164.80	\$31.50	\$361.20
\$153,001 - \$183,000	\$306,001 - \$366,000		\$164.90	\$263.70	\$50.70	\$479.30
\$183,001 - \$499,999	> \$366,001 - \$749,999	\$97,001 - \$402,999	\$164.90	\$362.60	\$70.00	\$597.50
≥ \$500,000	≥ \$750,000	≥ \$403,000	\$164.90	\$395.60	\$76.40	\$636.90

**Based on 2021 MAGI = AGI plus tax-exempt interest**  
 Does not include supplemental insurance premiums

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### Caveat #4

## Medicare & COBRA

- No COBRA after age 65!
- Do not let clients take COBRA and defer Medicare
  - They will miss their special enrollment period and may face coverage gaps and penalties
  - COBRA too expensive anyway



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Caveat #5

## Medicare & Retiree Plans

- Retiree plans pay secondary to Medicare... but only if they are enrolled in Medicare!
- If you have a retiree plan, are over 65, and not enrolled in Medicare, the plan won't pay
- Clients who retire before age 65 and go onto retiree plans should contact their insurance company three months before turning 65 to find out how their retiree plan will work with Medicare
- At this time, they should enroll in Parts A and B, effective the 1st of the month they turn 65
- 21 • Ask the plan if they should enroll in Part D



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Caveat #6

## Medigap Guaranteed Issue

- If you do not buy a Medigap policy within 6 months of enrolling in Part B, may be denied a policy based on health status and may NEVER be able to get one
- Can always get a Medicare Advantage plan, but Medigap tends to be more stable (benefits stay the same from year to year)



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# Transitioning To Medicare



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## Common Situation #1

- Client turns 65, is **still working** and covered by group plan that covers **20 or more** employees
- **Must** he enroll in Medicare? **No**
- **May** he enroll in Medicare? **Yes**
- **Should** he enroll in Medicare? **It depends**
- Compare costs and benefits of group plan to Medicare plus supplemental insurance
- Can enroll in free Part A for extra hospital coverage
- Can enroll in Part B for extra coverage if willing to pay premiums; Medicare serves as supplemental insurance



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## Considerations

- Can you see the **doctor** you want? Are the right specialists available if you need them?
- What are the monthly **premiums**?
- How much will you have to pay for your **medications**?
- What other **out-of-pocket costs** might you incur based on your expected health care usage?
- What about your **spouse**? If you go off employer plan, can spouse stay on it – or does spouse have own insurance?

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## Common Situation #2

- Client turns 65, is **not working** and covered by **spouse's** group plan that covers **20 or more** employees
- **Must** he enroll in Medicare? **No**
- **May** he enroll in Medicare? **Yes**
- **Should** he enroll in Medicare? **It depends**
- Compare costs and benefits of group plan to Medicare plus supplemental insurance
- Can enroll in free Part A for extra hospital coverage
- Can enroll in Part B for extra coverage if willing to pay premiums; Medicare serves as supplemental insurance

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## Common Situation #3

- Client turns 65, is **still working** and covered by a group plan that covers **fewer than 20** employees
- **Must** he enroll in Medicare? **Yes**
  - Medicare pays primary to small group plans
  - Small plans sometimes volunteer to pay primary in the absence of Medicare, but...
- They are not obligated to do so
- They could revoke such coverage at any time
- **What can go wrong?** Plan pays medical bills not realizing client is over 65 and Medicare is primary – plan later revokes payment leaving client stuck with the bill if not enrolled in Medicare

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## Common Situation #4

- Client turns 65, is **not working** and is covered by a retiree plan
- **Must** he enroll in Medicare? **Yes**
  - Medicare pays **primary to retiree** plans – client must be enrolled for Medicare to pay
  - Retiree plan can serve as supplemental insurance

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## Common Situation #5

- Client is over 65, **stops working**, and is put on COBRA
- **When must** he enroll in Medicare?
  - Before the end of the **8<sup>th</sup> month** after leaving employer plan
  - If he waits until COBRA ends (18 months) he will be outside special enrollment period
- Must wait till next general enrollment period (Jan. 1 – Mar. 31) to enroll
- Will not have health insurance during this gap!
- Should he **forego COBRA** and enroll in Medicare?
  - Probably. Average COBRA premium is \$500 compared to \$200-\$400 for Medicare

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## Making The Transition




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**Step #1**

# Choose Your Date

- Decide upon the month employer insurance will stop and Medicare will start
  - Usually at retirement but can be anytime after age 65



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**Step #2**

# Choose Your Plan

<b>Original Medicare</b>	<b>OR</b>	<b>Medicare Advantage Plan</b>
<b>Part A</b> Hospital Insurance		<b>Part C</b> Combines Part A and Part B
<b>Part B</b> Medical Insurance		<b>May include, or you may be able to add</b>
<b>You can add</b>		
<b>Medicare Supplement Insurance (Medigap) Policy</b>		<b>Part D</b> Prescription Drug Coverage (Most Part C plans cover prescription drugs. You may be able to add drug coverage to <b>some</b> plan types if <i>not</i> already included.)
<b>Part D</b> Prescription Drug Coverage		

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## Comparing Medigap vs. Medicare Advantage

Medigap	Medicare Advantage
Can see any doctor who accepts Medicare; this may be a problem in some areas	Must use network providers; no trouble finding a doctor but may not be able to see doctor you prefer
Benefits never change; premiums may go up	Benefits and premiums may change from year to year
Can seek care anywhere in U.S.; good for travelers or snowbirds	Can seek emergency care out of area, otherwise must go to providers in area of residence
Better for people who go to the doctor a lot (low or no copayments)	Better for people who are healthy and want to stay that way (gym memberships, etc.)
When shopping, the emphasis is more on costs because policies are standardized	Finding the right plan is based more on quality of care: network of providers, preventive services, additional services not covered by Medigap
Medigap insurers tend to be more stable	Medicare Advantage plans tend to come and go; look for stable company
Remember to add cost of standalone prescription drug plan to total cost	No additional cost for drug coverage with Medicare Advantage-Part D (MAPD) plans

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### Step #3

## Find Specific Plan(s)

- If Original Medicare, choose supplemental coverage
  - Medigap policy and Part D drug plan
  - Employer plan if still working
  - Retiree plan if available
- If Medicare Advantage plan, shop for specific plan
- **Resources:**
  - [medicare.gov/find-a-plan](https://www.medicare.gov/find-a-plan)
  - Licensed Medicare Broker
  - State Health Insurance Assistance Program (SHIP)



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Step #4

# Enroll In Medicare

Source:  
[ssa.gov/medicare/sign-up](https://ssa.gov/medicare/sign-up)

**Sign up for Medicare**

Request premium adjustment

Apply for Part D cost assistance

Learn about Medicare

## Sign up for Medicare

Medicare is our country's health insurance program for people age 65 or older, or with certain disabilities or permanent kidney failure.

**Information you'll need to provide** +



### Start an application

[If you are already enrolled in Medicare Part A, sign up for Part B only](#)

Our employees review every detail you submit. If we need documents or more information, we'll let you know by mail or phone within 14 days. To avoid delays, don't mail us documents unless we ask you to send them.

[Start application](#)

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Step #5

# Sign Up For Supplemental Coverage Through Private Insurer

- Medigap policy and drug plan, or Medicare Advantage plan
- Make sure everything starts on the 1<sup>st</sup> of the chosen month

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Step #6

# Stop HSA Contributions

- There can be no HSA contributions for any month enrolled in Medicare
- Note: Part A is usually backdated six months if client is at least six months past age 65; must back out HSA contributions for those months
- Excess contributions can be backed out anytime before tax filing deadline
- Spouse family contribution loophole: if spouse is still on plan and not on Medicare, spouse can make the full family contribution (\$7,750 in 2023) plus own catchup contributions



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Step #7

# Appeal The IRMAA

- Wait until client gets Medicare premium notice
- Use Form SSA-44, show income for this year and next year due to life changing event\*
- Mail or deliver to local Social Security office

- Marriage
- Divorce/Annulment
- Death of Your Spouse
- Work Stoppage
- Work Reduction
- Loss of Income-Producing Property
- Loss of Pension Income
- Employer Settlement Payment



Date of life-changing event: \_\_\_\_\_  
mm/dd/yyyy

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## Step #8

## Monitor & Manage

- Drug plans and Medicare Advantage plans change every year. Review during annual enrollment period, Oct. 15-Dec. 7
  - Check for higher premiums, reduced benefits, changes in provider network
  - Look at new markets – might save money!
- Appeal the IRMAA again if necessary
- Continue regular tax/IRMAA management: know how much income a client can have before jumping into the next IRMAA bracket

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## Estimating Health Care Costs In Retirement

- Prepare clients for first-year health costs
  - Monthly premiums (Part B, Part D, Medigap)
  - Out-of-pocket costs (deductibles, noncovered expenses like dental)
- Build inflation into the budget
  - General inflation – premiums
  - More health care usage as clients age
- Plan for long-term care

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