Pre-Medicare Health Care Planning

Vanguard®

Retiring early? Plan on bridging the gap to Medicare

While current employees say they intend to work until a median-reported age of 65, the actual median retirement age is 62, according to the Employee Benefit Research Institute.[1] Retiring early has its benefits—such as granting you more time to enjoy other interests and even pursue a second career. You may be considering retiring before age 65. If you are, don't ignore what could be a major expense—health care insurance costs you will have to pay before you are eligible for Medicare. Explore your options to be prepared. It's an important cost factor to consider when you're putting together an early retirement plan.

1 2023 Retirement Confidence Survey - 2023 Fact Sheet #2, Expectations about retirement. Employee Benefit Research Institute. Available at https://www.ebri.org/docs/default-source/rcs/2023-rcs/rcs_23-fs-2.pdf?sfvrsn=708d392f_4

Early retirement health care options through employers

There are numerous options out there if you decide to retire early—many might be available through your former employer. But which could work best for you? Be sure to look at all the potential choices and compare all the details to be sure you understand not just the premiums, but the potential out-of-pocket costs until you reach the Medicare-eligible age.

- **Employer-sponsored plan:** Offered through your own employer via "retiree health care benefits" or via your spouse's health insurance plan. There are personal costs associated with your benefits, which you should know about upfront. Here are three popular options to better understand employer-sponsored health insurance plans:
  - **HMO:** A Health Maintenance Organization plan is known for lower premiums and deductibles. It's a good choice for people on a tight budget and who have few health issues. You must use the plan's network of doctors and must obtain referrals for specialists and ancillary services.
  - **PPO:** In a Preferred Provider Organization plan, you pay higher premiums but have the freedom to see doctors out of network.
  - **CDHP:** In a Consumer-Directed Health Plan (largely self-directed), out-of-pocket costs are similar to an HMO and much lower than a PPO. But choices of doctors or providers are not limited. CDHP deductibles and copays are typically higher, and you get the negotiated rate between providers and the insurance company, which can save on certain services. CDHP plans are typically designed for people who don't require much care, because deductibles are high—for example, as much as $10,000. A Health Savings Account (HSA) can be used here to offset the expenses of a high-deductible health plan
- **COBRA (Consolidated Omnibus Budget Reconciliation Act):** Offered through the employer from which you are retiring, COBRA allows you to extend the coverage you had as an employee for 18 to 36 months beyond the date your work health insurance terminates. You will retain the same health coverage you had as an employee, but you will now pay the entire cost—usually a much higher premium than when you were employed. Your premium will include the portion your employer previously subsidized plus an additional 2% in some cases.

What could it cost if you lack health insurance?

Appendectomy

$10,000 to $35,000 or more, depending on the provider, whether the operation is open or laparoscopic, and whether there are complications.

Broken leg

$2,500 for a fracture that requires a cast; $17,000 to $35,000 for surgical treatment of a fracture.

Three-day hospital stay

$30,000 is the average price tag for three days of hospitalization.

Sources: health.costhelper.com and healthcare.gov.

Health care insurance options through the Affordable Care Act Health Insurance Marketplace®

The Affordable Care Act (ACA) of 2010—also known as Obamacare—expanded access to health insurance options for Americans who did not have health insurance through employer-sponsored plans. As a result of this act, health insurance exchanges were created by individual states and the federal government. These ACA Marketplace plans are offered to individuals, families, and small businesses through healthcare.gov and state-specific sites. Where you live can affect what health coverage is available to you, and plans vary by insurer.

Premiums are set based on your age, location, tobacco use, and individual versus family enrollment status. Be advised that, to keep prices low, some plans offer small provider networks.

There are four "metal" categories for health plans which correspond with cost-sharing differences, but these metal tiers do not relate to the quality of care.

TYPE OF ACA PLAN	INSURANCE COMPANY PAYS	YOU PAY	MONTHLY PREMIUM COST	DEDUCTIBLE RANGE
Bronze	60%	40%	Lowest monthly premium	High deductibles
Silver	70%	30%	Moderate monthly premium	Lower deductibles than bronze
Gold	80%	20%	High monthly premium	Low deductibles
Platinum	90%	10%	Highest monthly premium	Lowest deductible

Most popular options

The public marketplace can be a great option for early retirees who don't yet qualify for Medicare due to potential premium subsidies

People over 55 years old face higher premiums due to their age, and may have developed a health problem over the years. With the plans in the Marketplace, you can't be denied for pre-existing conditions. Costs vary from plan to plan, but many people qualify for government-provided subsidies through "premium tax credits," which makes everything more affordable. Since income tends to be lower after leaving employment, you can receive higher subsidies based on that lower income, especially if other means of support—such as Social Security—are being deferred until past age 65. Tax credits are based on both your income estimate and the household information you provide on the Marketplace application. When the ACA was first signed into law, it included premium tax credits for individuals and families with incomes between 100% and 400% of the federal poverty level (FPL). The FPL is state-specific and varies by family size, but as an example, it is around $14,580 for a single adult and $19,720 for a family of two in 2023.

As part of the American Rescue Plan Act (ARPA) of 2021, the premium tax credit was temporarily extended to individuals with incomes above 400% of the FPL, adding an even greater subsidy for those earning below that amount. Through the Inflation Reduction Act in 2022, these tax credits for middle income Americans extend through January 1, 2026, unless Congress takes further action. Premium tax credits go to all Marketplace consumers where the price of health insurance premiums exceed 8.5% of income—the maximum contribution under the ARPA (based on the second-lowest-cost Silver plan). The exchange typically is the best and most affordable option for people who qualify for premium subsidies and cost-sharing subsidies, as subsidies are only available for plans purchased in these exchanges.

Private "off-marketplace" health insurance is often available

If you don't qualify for premium tax credits or additional government subsidies, you may seek an off-exchange plan directly from an insurance company, agent, broker, or online health insurance provider (off-exchange plans available in all states with the exception of the District of Columbia). Brokers who sell the public exchange policies should be able to provide you with both on- and off-exchange options, all in one place. A good starting point could be the agent locator on healthcare.gov. An agent could help you decide if an off-marketplace plan would be more affordable and offer a broader network for your personal circumstances.

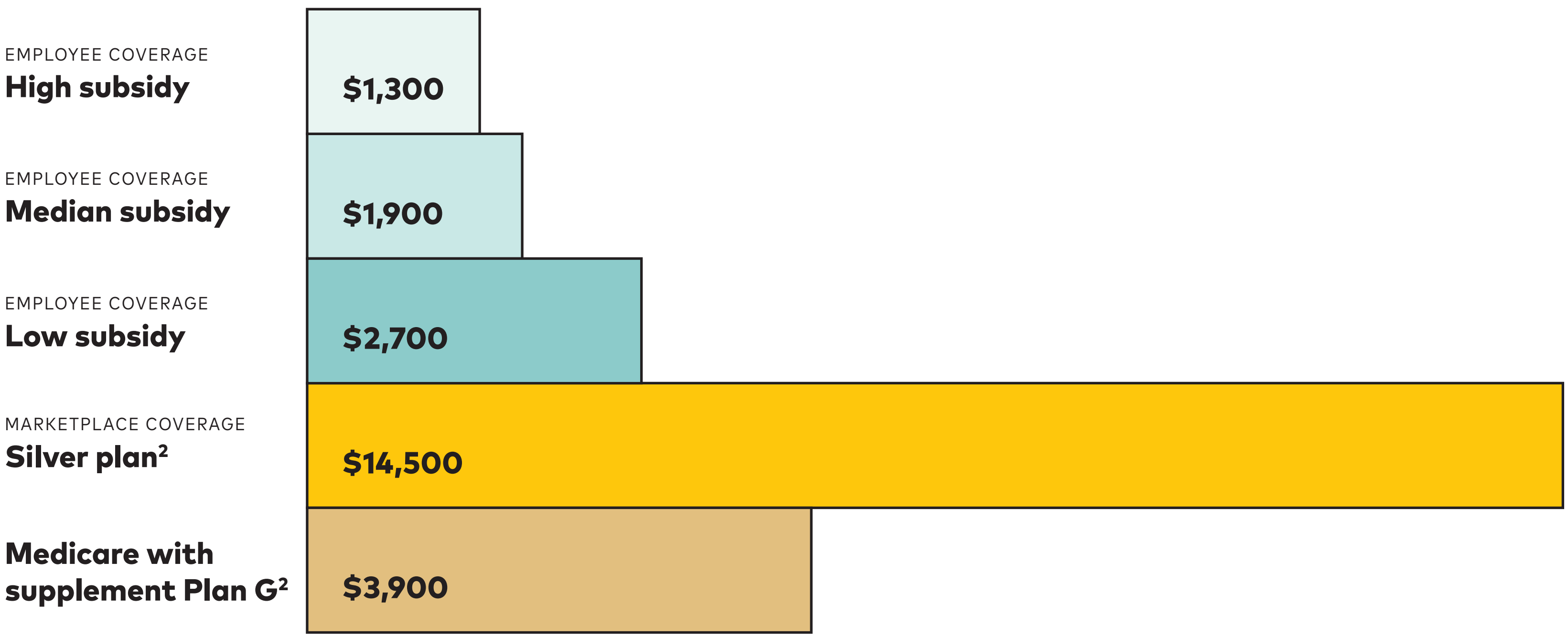
Don't assume you aren't eligible for subsidies without going to the exchange website to check eligibility, and remember that subsidies are not available for off-exchange health plans.

Marketplace plans and non-marketplace plans are very similar and are categorized by the same metal ratings. People who don't receive premium tax credits may pay less by choosing a lower-cost off-marketplace health insurance plan from a private website. Regardless of where they are sold, health insurance plans must hold up to certain Affordable Care Act standards. Some provider networks may be different between plans on and off the marketplaces, as the insurance provider may need to narrow their network of doctors in order to lower their ACA exchange premiums, leading to a larger network of doctors for the equivalent off-exchange plan.

Health insurance could be an expensive proposition, so select wisely.

Here's a chart that compares costs of employer-subsidized plans, Marketplace plans, and Medicare. When you lose employer subsidies, the cost of coverage can be significant.

Average annual premiums by type of insurance, 2023



Sources: Employee contributions are based on Mercer's 2022 National Survey of Employer-Sponsored Health Plans.

2 Silver Plan and Medicare Supplement Plan G coverage premiums derived with 2023 Mercer-Vanguard health care cost model. Assumptions based on a single female with average health residing in Louisiana.

What's the best way to get started finding pre-Medicare health insurance?

If you don't have the option of an employer-sponsored plan, it's best to start by pricing insurance through your state's Health Insurance Marketplace. You'll learn what your tax credits could be to help subsidize the cost of the premiums. Why is this important? These ACA Marketplace plans get more expensive as you age, so for early retirees, the elevated tax credits are important to help people who are younger than age 65 and paying high rates. One important thing to note: If you enroll in a marketplace plan, when you reach age 65 and enroll in Medicare, you must cancel your ACA coverage.

Mark your calendar to visit healthcare.gov during open enrollment.

Open enrollment for ACA Marketplace plans is typically offered every year from November 1 until January 15. If you miss open enrollment, the only way you can qualify to enroll is through a special enrollment period, which is reserved for those who experience life events such as getting married, having a baby or losing health coverage.

Visit healthcare.gov to compare plan prices, see if you qualify for premium tax credits, and get help from an agent. Work with your financial advisor to budget and plan for your health care costs.

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