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How to Get Retiree Health Insurance Before 65

By Emily Brandon, Wednesday, May 11, 2011
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One of the biggest obstacles to retiring before age 65 is finding affordable health insurance. It takes a considerable amount of effort and can be very expensive for early retirees to purchase health insurance. Here are several ways to maintain health coverage until you qualify for Medicare.

Retiree Medical Insurance - Most workers won't receive retiree health benefits from their former employer. Companies can generally increase out-of-pocket costs or even revoke retiree health benefits at any time. To encourage employers to maintain their healthcare coverage for early retirees, the healthcare reform bill promised to reimburse employers for high healthcare costs for retirees age 55 and older who are not yet eligible for Medicare. Retiree health plans can also be expensive for individuals, depending on whether your former employer subsidizes your coverage. A Towers Watson survey of 552 primarily Fortune 1000 companies found that retirees under age 65 pay an average of \$633 per month for individual coverage and \$1,633 monthly for family coverage.

COBRA Coverage - You can buy back into the group health insurance plan offered by your former employer using COBRA continuation coverage, typically for up to 18 months if your company had at least 20 employees. "If your company offers you COBRA when you get to be 63 1/2, then you could use COBRA for 18 months and then go right into Medicare," says Nancy Davenport-Ennis, founder and CEO of the National Patient Advocate Foundation. But COBRA coverage, while guaranteed, could put a significant strain on your retirement budget. "COBRA is expensive and it's time-limited," says Elisabeth Schuler Russell, founder and president of Patient Navigator. You may be required to pay the entire cost of the health insurance premiums out-of-pocket, including any amount the company pays for active employees plus a 2 percent administrative fee. And if your former company closes or goes bankrupt, you will lose your COBRA coverage.

Other Forms of Group Coverage - If your spouse is still working, you may be able to get health insurance through his or her employer. You will generally need to request enrollment within 30 days of losing eligibility for your previous health plan. "A lot of professional associations and societies and some churches have group coverage," says Russell. "Group coverage in most cases will be less expensive than individual coverage."

Individual Insurance - Shop around carefully when selecting an individual insurance policy. Price points to consider include premiums, deductibles, co-pays, coinsurance, the annual limit you have to pay out-of-pocket before insurance covers everything, and the record of annual premium increases. But the price of a policy shouldn't be the only determining factor. "Look at your family's health history and be certain you are buying a plan that is going to give you the benefits you need when you are diagnosed," says Davenport-Ennis. Examine whether your preferred doctors are in-network and whether pre-approval is needed for procedures. "Check with the state insurance regulatory agency to see what complaints exist against that insurance company," says Russell. "Go online and see what other people using it have to say." You can compare a variety of insurance options in your area at healthcare.gov.

High risk pools and pre-existing condition plans. Many states have high-risk pool programs that help people with medical problems get health insurance. If you have been uninsured for six months, have a pre-existing condition, and have been denied coverage because of a health condition, you may be able to get health insurance through a pre-existing condition insurance plan. PCIPs were created by the healthcare reform bill to make health coverage available to individuals who have been denied health insurance by private insurance companies. Every state is required by law to have a PCIP. If you live in one of the 23 states where the U.S. Department of Health and Human Services runs the program, the monthly premium for a 50-year-old enrollee ranges from \$267 to \$605, depending on your state of residence and the plan options you choose. But it's generally not a good idea to voluntarily go without coverage for half a year in order to qualify. "No one with a pre-existing condition should go uninsured for six months," says Davenport-Ennis "If you spend six months uninsured with a pre-existing condition, your disease can move to a new status and you may not be able to get control of it again."

Part-Time Job - If you are still able and willing to work in retirement, some companies provide health benefits to part-time employees. Find out the requirements to qualify for the health plan and make sure you stay ahead of the cutoff. "If you don't think you can get individual health insurance because of your health status, you are better off staying employed," says Deloitte health actuary John Schubert. "Some people will take a part-time job with reduced work hours or take a job they are overqualified for just to get health insurance."

Exchanges Coming in 2014 - People who retire before age 65 will be able to purchase health insurance through insurance exchanges beginning in 2014, with tax credits for those with low and moderate incomes. Many specifics still have to be worked out, but basically the new healthcare reform law provides federal funding for states to establish American health Benefit Exchanges and Small Business health Options Program (SHOP) Exchanges. Whether you're an individual or a small business owner, these exchanges are supposed to serve as an easy, cost-affordable way for you to get health-insurance for yourself or your employees. From a consumer perspective, the exchanges are about power in numbers. For instance, the American Health Benefit Exchanges are supposed to provide access to lower cost insurance plans for the uninsured because they allow individuals to join together with other individuals to create a large pool of insured people. Usually, in the insurance world, the more people who are insured under any one plan, the lower the premiums for that plan. The SHOP exchanges are where business owners with fewer than 100 employees can join forces with other small businesses to try and get the best coverage at the best price for themselves and their workers. Even if you're offered insurance through your employer, you could still opt to purchase insurance through the individual exchange if your income meets certain FPL guidelines

"On July 1, 2012, you could take COBRA for a year and a half and then be able to purchase health insurance through the exchanges in 2014," says Schubert. The risk is that the health reform law could be changed before exchanges become operational and then you won't have a guaranteed way to buy health insurance. Says Schubert: "I would personally wait until after the 2012 election to find out how likely it is that you can do this.