THE ESSENTIALS

RETIREMENT PLANNING: HEALTH CARE CONSIDERATIONS

MetLife
Mature Market Institute

NAHC
National Alliance for Caregiving
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National Alliance for Caregiving
Established in 1996, The National Alliance for Caregiving is a non-profit coalition of national organizations focusing on issues of family caregiving. The Alliance was created to conduct research, do policy analysis, develop national programs, and increase public awareness of family caregiving issues. Recognizing that family caregivers make important societal and financial contributions toward maintaining the well-being of those for whom they care, the Alliance’s mission is to be the objective national resource on family caregiving with the goal of improving the quality of life for families and care recipients.
www.caregiving.org
As we all look toward retirement, there are many important considerations that accompany the decisions as to where we will live, how we choose to spend our time, when we will leave the workforce or change the way in which we work, and how we plan to allocate our resources to be able to achieve the dreams we have for this stage of life. Among those considerations is planning for future health care expenses. This guide is intended to provide, in question-and-answer format, a brief overview of the reason this is such an important concern and some of the key considerations to explore as you head toward retirement. It will look at issues related to early retirement as well as decisions you will need to make around Medicare, if and when you are eligible. A listing of resources provides additional detailed information around the topics that are discussed here.
# Table of Contents

**Importance of Planning** ................................................................. 5
- Why Is It So Important to Focus on Future Health Care Expenses? .............. 5
- What Are the First Steps I Need to Take in Planning for Health Care Costs in Retirement? ................................................................. 5

**Early Retirement** ........................................................................... 6
- What Do I Need to Know if I Plan to Retire Early? ..................................... 6
- What Is COBRA and How Does It Work? .............................................. 6
- What Can I Do if I Am Not Eligible for COBRA or if After 18 Months on COBRA, I Am Still Not Eligible for Medicare? ................................. 7
- How Does Private Insurance Work and How Do I Find It? ....................... 7
- What Are Health Savings Accounts (HSAs) and How Do They Work? ....... 8

**Medicare Eligible** ............................................................................. 9
- What Is Medicare and How Does It Work? ............................................ 9
- How Do I Apply for Medicare? ............................................................ 10
- Does Medicare Cover All of the Costs Associated with the Services It Covers and if Not How Can I Cover Them? .............................................. 10
- What About Coverage for Prescription Drugs? ..................................... 10
- Are There Health Care Services and Expenses That Are Not Covered Under Medicare? ................................................................. 11

**Resources** ..................................................................................... 12
- Useful Publications ............................................................................. 12
- Internet Sites .................................................................................... 13

**Endnotes** ....................................................................................... 14
Q. Why Is It So Important to Focus on Future Health Care Expenses?
A. Americans are living longer. While longevity can bring many rewards, with it also comes the greater risk of experiencing changes in health. Adults age 65 and over have on average higher health care expenses than any of the younger age groups, averaging $8,776 per person in 2006 as compared with $4,863 for those ages 45 to 64, and $2,305 for those ages 25 to 44.\(^1\)

Health care costs are rising at a faster rate than general inflation and individuals run the risk of health care costs putting their retirement savings at risk, unless they plan for anticipated expenses and are properly insured to protect against this risk. Individuals often underestimate the amount they will need to cover health care expenses in retirement, with 40% of retirees responding to the 2009 Retirement Confidence Survey indicating that their health care expenses in retirement have been higher than they anticipated.\(^2\)

Rising health care costs have caused many employers to discontinue their retiree health insurance benefits. In 2011, among firms with 200 or more employees who offered health insurance to their employees, 26% offered retiree health benefits, down from 66% in 1988. Only 6% of smaller firms who offer employee health insurance provide retiree health benefits. Among larger firms offering retiree health benefits, 91% offer benefits to early retirees, while 71% offer them to Medicare-age retirees.\(^3\)

Q. What Are the First Steps I Need to Take in Planning for Health Care Costs in Retirement?
A. The first step is learning how your current employee benefits work and understanding how your employer treats retiree health benefits. Explore with human resources what benefits you might anticipate and projected costs for those benefits. Find out if and when they are available to you in retirement. If married, you should also understand how your spouse’s employee benefits work, if either he or she is covered under a different plan, or if both of your benefits complement each other. What will be the implications of that plan in retirement? If your spouse is covered under your plan only or vice versa, find out how the spousal benefits will work in retirement. For instance, will the surviving spouse be entitled to continue with the benefits if the employee dies? This will be important information as you both plan for retirement. Having a complete understanding of how the benefits work will allow you to make informed decisions going forward.
Q. What Do I Need to Know if I Plan to Retire Early?

A. If you plan to retire before age 65, it is important that you determine whether or not you will have health insurance benefits through your employer or another source such as a spouse's plan.

If the answer is “yes,” speak with your employee benefits administrator to determine what benefits you will have and what the cost will be. This would also be true if you were able to obtain or continue benefits under a spouse's plan when you retired. In order to build in anticipated costs to you, it is important that you understand how the benefits will work if you retire early. Find out the answers to the following questions:

› Will the cost be subsidized by your employer?
› What will be your out-of-pocket premium costs?
› Will your benefits mirror those that you currently have? If not how will they change?
› Will your co-payments and deductibles change from what you currently have?
› Will you have dental, vision, and prescription drug benefits?
› How will the premiums and benefits change at the point that you become eligible for Medicare?

If the answer is “no” explore what options you might have through your employer. Find out the answers to the questions below:

› What will your premiums and benefits be if you select COBRA (described below)?
› Do you have the option to go to part-time rather than retire and retain your health benefits?
› Will you receive retiree health benefits at a later date? If so when would that be (e.g., when you reach a certain age or when you become eligible for Medicare)?

Answers to the above questions will help you determine what steps you need to take before retiring. There are several avenues you may explore, including considering employment options that will permit you to have a flexible, perhaps part-time, work arrangement that will allow you to retain or obtain health insurance benefits. Several laws including COBRA contain provisions which may allow you to retain and/or obtain health care coverage until you become eligible for Medicare. These options will be discussed in the questions on the following pages.

Q. What Is COBRA and How Does It Work?

A. Federal Law requires that firms with 20 or more employees who have health insurance while they are working must, in most instances, offer the employee continuation health insurance coverage known as COBRA (The Consolidated Omnibus Budget Reconciliation Act of 1986) for up to 18 months, when the employee leaves his or her job. Employers may require the employee to pay the full cost of the insurance plus, in most instances, a 2% administrative fee.
Early Retirement

If you are eligible for COBRA there are advantages over seeking another private insurance. While the cost for the insurance may not be subsidized by your employer, your rates will likely be less than in a private individual plan, since you are covered under the group plan rates. If you are within 18 months of Medicare eligibility, COBRA would be an option to bridge the gap or it can serve as a temporary solution permitting you to either explore private insurance options that you would be able to implement once COBRA ceases or perhaps employment elsewhere where benefits would be available.

Q. What Can I Do if I Am Not Eligible for COBRA or if After 18 Months on COBRA, I Am Still Not Eligible for Medicare?5

A. There is one other law that may provide you with protection. The 1996 Health Insurance Portability and Accountability Act (HIPAA) allows workers in firms with fewer than 20 employees who have had health insurance while working a guaranteed right to purchase an individual policy immediately after leaving a job, based on certain minimum requirements, such as length of time in the group plan. Premiums may be subject to state regulation. Rates will generally be higher than those under COBRA since these are individual not group plans.

HIPAA also permits those who had been covered under COBRA to purchase private individual policies after the 18 months of COBRA coverage is exhausted. The protections under HIPAA are important because they protect you if you have health conditions that might otherwise have caused you to be declined for coverage in an individual policy. In addition to these Federal Laws, each state has regulations regarding the sale of insurance and consumer protections.

See Resources on page 12 for state-specific insurance-related information.

Q. How Does Private Insurance Work and How Do I Find It?

A. As indicated above, private insurance is likely to be more costly than COBRA or your group plan. You should compare plans and costs to determine what will best meet your needs. Your State Department of Insurance can be a resource to let you know which companies offer insurance in your state. You might check with organizations to which you belong such as professional associations and affinity groups to see if they might offer health insurance benefits.

You can speak with an insurance representative licensed to sell health insurance to learn what is available to you. When making decisions, consider carefully the options and make sure you clearly understand how the plans work. Do not be afraid to ask questions, if something is not clear or does not seem right to you. You may be able to save money on premium if you select a plan with a high deductible, but be sure you understand what the potential out-of-pocket costs are should you become ill or require hospitalization.

You might also want to compare regular fee for service plans and managed care plans such as Health Maintenance Organizations (HMOs) if they are available in your area.
Q. What Are Health Savings Accounts (HSAs) and How Do They Work?

A. A Health Savings Account (HSA) would be something to contribute to prior to your retirement. HSAs were written into law in December 2003 as part of the Medicare Prescription Drug Improvement and Modernization Act of 2003 and are designed to help individuals save for qualified medical expenses and retiree health expenses on a tax advantaged basis. Any adult with no first dollar coverage and a high-deductible health plan, which in 2012 had a minimum $1,200 deductible for an individual, $2,400 for a family, may establish an HSA.

Consumers can establish HSAs through banks, credit unions, insurance companies, and other approved companies. Employers may also establish them for employees. Individuals may make tax-deductible contributions to the HSA; the individual’s employer may make contributions that are not taxed to either the employee or employer; and employers sponsoring cafeteria plans can allow employees to contribute untaxed salary through salary reduction.

Amounts put in an HSA are portable and can grow tax-free through investment earnings like an IRA. Funds distributed are not taxed if used for qualified medical expenses. Once someone is Medicare eligible they can no longer contribute to the HSA, but funds in the HSA can be used for qualified expenses.
Q. What Is Medicare and How Does It Work?
A. Medicare is a Federal Health Insurance Program established in 1965 as a form of health care coverage for qualifying individuals. Qualifying individuals are:

› Individuals who are 65 years of age or older and have worked 40 or more quarters in Medicare-covered employment

› Individuals who are 65 years of age or older and who have a spouse who has worked 40 or more quarters in Medicare-covered employment

› Individuals under age 65 with certain disabilities.

There are two basic types of Medicare in which someone may enroll: Original Medicare and Medicare Advantage.

Original Medicare includes two parts:

› Medicare Part A, sometimes called “hospital insurance,” which is funded through payroll taxes and covers items such as hospital stays, skilled nursing facility stays, and home health care services that meet Medicare criteria, hospice care, and blood transfusions while in a hospital and

› Medicare Part B, sometimes called “medical insurance,” which carries a monthly premium that is typically deducted from your Social Security check and covers services such as doctor visits, laboratory services, outpatient therapies, certain preventive screening services, and durable medical equipment.

While Medicare B is voluntary, you may incur penalties if you do not enroll when you are first eligible and you choose to enroll at a later time.

Medicare Advantage Plans, called Medicare Part C, are Medicare Managed Care Plans such as:

› Health Maintenance Organizations

› Preferred Provider Organizations

› Private Fee for Service Plans

› Special Needs Plans for individuals with certain chronic illnesses and special health care needs.
Q. How Do I Apply for Medicare?
A. If you are already receiving Social Security Benefits you will automatically be enrolled in Medicare Part A and Part B as of the month you turn 65. You will receive your Medicare card about 3 months before your birthday and if you choose not to take Medicare Part B, the card will provide instructions regarding how to proceed.

If you are approaching age 65 and are not receiving Social Security benefits yet, you will need to enroll in Medicare. You can apply in person at your local Social Security office or by calling Social Security at 1-800-772-1213. You should apply three months before the month in which you turn 65.

Q. Does Medicare Cover All of the Costs Associated with the Services It Covers and if Not How Can I Cover Them?
A. Original Medicare has out-of-pocket expenses which are the responsibility of the beneficiary. In order to assist with these “gaps” in Medicare coverage, Medicare has defined standard plans called Medigap plans or Medicare Supplement plans, which cover some or all of the deductibles and co-payments depending upon which Medigap plan you select. These plans are offered through private insurers. Premiums for these plans will vary depending upon which coverage you select, your age in most instances, and the carrier you select. If you have retiree health insurance, your employer plan may act like a Medigap plan with Medicare being the primary payer once you are retired and your employer plan the secondary payer. In this instance you will not need a Medigap plan.

Medicare Advantage plans are an option you may select in lieu of Original Medicare. They provide all of the Part A and Part B services and usually offer additional benefits. You do not need and generally cannot use a Medigap plan if you are enrolled in Medicare Advantage.

Q. What About Coverage for Prescription Drugs?
A. Medicare offers a voluntary Prescription Drug Program, known as Medicare Part D. This program was established under the Medicare Prescription Drug Improvement and Modernization Act of 2003 with the intent of lessening the financial burden of prescription drug costs for beneficiaries, especially those with low incomes and those with extremely high out-of-pocket expenses.

Under the law, Medicare Part D will pay for outpatient drug coverage through Medicare-approved private drug plans, giving beneficiaries access to a “Standard” drug benefit or its equivalent. Medicare has defined the minimum requirements for standard coverage. While plans may vary, in general they will have a monthly premium based on the plan an individual chooses and include deductibles and co-pays. Like Medicare Part B, while the Medicare Prescription Drug Program is voluntary, there can be penalties for delayed enrollment, unless you have coverage under another prescription plan, such as an employer plan, that is at least comparable to the Medicare Standard Prescription Drug Plan.

The chart on page 11 illustrates how in most instances the Medicare-Approved Standard Prescription Drug Plan worked in 2012. Deductibles and co-pays are subject to change. The chart does not include premiums for the coverage.
Q. Are There Health Care Services and Expenses That Are Not Covered Under Medicare?

A. Medicare does not cover all of the expenses you may incur related to changes in your health. Some of the items it does not cover are hearing aids, chiropractic care (except under Medicare-specified circumstances), routine dental care or dentures (with only a few exceptions), routine eye care or most eyeglasses, routine foot care (with only a few exceptions), care while traveling outside the U.S. and its territories (with only a few exceptions), and long-term care, often referred to as custodial care (including assistance with activities of daily living such as bathing, dressing and toileting), in a nursing home, an assisted living community or at home.12

There are discount programs (e.g., vision discounts), that you might access through associations such as AARP. Some of the services and care may be covered by insurance through your employer, an association or a private individual plan, including dental insurance and long-term care insurance.

The costs for many of these non-covered services can be significant and can adversely impact your plans for retirement. This is especially true for ongoing long-term care expenses. In fact, because this is such an important concern, the government has established a Website to educate consumers about long-term care and the importance of planning for the possibility of needing it. For more information and the ability to order an Own Your Future long-term care planning kit visit: www.longtermcare.gov/LTC/Main_Site/index.aspx.

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**Medicare-Approved Standard Prescription Drug Plan 2012**

<table>
<thead>
<tr>
<th>Prescription Drug Costs</th>
<th>Medicare Pays</th>
<th>Individual Pays</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0-$320</td>
<td>$0</td>
<td>100% ($320 out-of-pocket)</td>
</tr>
<tr>
<td>$320-$2,930</td>
<td>75% of drug costs up to $1,957.50</td>
<td>25% of drug costs (up to $652.50 out-of-pocket)</td>
</tr>
<tr>
<td>$2,930-$6,657.50</td>
<td>0% of drug costs</td>
<td>100% of drug costs up to $3,727.50 out-of-pocket as described below*</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>Up to $1,957.50</td>
<td>Up to $4,700 out-of-pocket</td>
</tr>
<tr>
<td>Over $6,657.50</td>
<td>95%</td>
<td>$2.60 (co-pay generic), $6.50 (co-pay brand name), or 5% (whichever is higher)</td>
</tr>
</tbody>
</table>

*This is an area in the standard plan called the donut hole where the individual does not receive reimbursement from their plan. In 2012, individuals receive a 50% discount on brand-name drugs while in the donut hole and pay a maximum of 86% of the cost of generic drugs.

Please note that the above chart represents the Standard Plan. Those enrolled in a non-standard plan may have different out-of-pocket expenses and cost-sharing amounts.
USEFUL PUBLICATIONS


The guide provides details related to COBRA in a clear, easy-to-read, format. It also provides resources if the employee has questions related to COBRA or HIPAA.


This document is geared toward employees and explains some of their rights and protections under Federal law when dealing with Health Benefits through their employer. It also addresses issues of leaving or changing a job as in the case of early retirement.


This guide discusses details related to COBRA Health Benefits, HIPAA, and ERISA Pension Benefits in a clear question-and-answer format. It provides a phone number to call for any questions and a listing of other related available publications.


This document provides basic information about HSAs: what they are, how they work, and what individuals need to do to enroll in one in an easy-to-read question-and-answer format.


This guide provides detailed easy-to-read information related to all aspects of Medicare, including the prescription drug program.


This publication provides an overview of Medicare and detailed information related to the Medigap plans that are available.


This guide provides an overview of all aspects of the Medicare Prescription Drug program, Medicare Part D.
INTERNET SITES

Georgetown University Health Policy Institute
www.Healthinsuranceinfo.net
Contains a consumer guide for getting and keeping health insurance for each state. The guides summarize consumer protections and look at both state specific and federal regulations that impact health insurance. They are updated to reflect changes that may occur in the laws.

Medicare
www.medicare.gov
Contains detailed information on all aspects of Medicare, including the prescription drug program. It provides local and state-specific information on available Medicare Prescription Drug plans, an individual plan comparison capability based on an individual's Medicare number and demographic information, and a formulary finder to allow individuals to search formularies in their state in relation to medications they are currently taking. Individuals may also call Medicare at 1-800-MEDICARE (1-800-633-4227) with questions or to order a printed copy of any of the Medicare publications. You should have your Medicare number handy if calling with specific questions about your coverage.

Social Security Administration
www.ssa.gov
Provides information about benefit eligibility, including information about eligibility for Medicare. The Website explains the steps you need to take to apply for Medicare if you are not yet receiving Social Security Benefits prior to age 65 and how to apply for a replacement of your Medicare card if it is lost. The Website provides a guide book related to Medicare at: http://www.socialsecurity.gov/pubs/10043.pdf. You may also call Social Security toll-free at: 1-800-772-1213 with questions.

U.S. Department of Labor, Employee Benefits Security Administration (EBSA)
www.dol.gov/ebsa/consumer_info_health.html
Provides consumer information related to health care coverage and employee benefits including information about COBRA, HIPAA, and work changes that require health care choices. You may also call EBSA advisors toll-free at: 1-866-444-EBSA (3272). They are available to answer questions and provide assistance in obtaining benefits and understanding laws related to retirement and health benefits. You may also order EBSA publications.

U.S. Department of the Treasury Resource Center, Health Savings Accounts (HSAs)
www.treasury.gov/resource-center/faqs/Taxes/Pages/Health-Savings-Accounts.aspx
This Web site provides information related to all aspects of Health Savings Accounts. It includes IRS Publication 969: Health Savings Accounts and Other Tax-Favored Health Plans, which is updated each year with any changes that may occur related to tax filing.
Endnotes


5 FAQs About the Portability of Health Care Coverage and HIPAA, U.S. Department of Labor, Accessed via Internet November 2011. http://www.dol.gov/ebsa/faqs/faq_consumer_hipaa.html. The information in this question was adapted in part from this publication.

6 Resource Center—Health Savings Accounts (HSAs), United States Department of the Treasury, accessed 11/11 via the Internet at http://www.treasury.gov/offices/public-affairs/hsa/. The information in this question was adapted in part from this Web site.


