Retiring Early? Don't Forget Health Coverage

This column is for the Baby Boomers in our audience age 63 and below. Many in our generation (yes, I was born in 1957) have had the luxury of at least *considering* early retirement. Although last year's stock market results may have put at least a few of those plans on hold, your biggest problem may not be the balance in your 401(k).

Consider this scenario: you decide to move retirement from age 65 to 60 while you still have the time and energy to enjoy life and do the things you put off while you were raising kids, paying tuition, etc. With just a bit of adjustment, your savings accounts are on target and things are looking rosy. You meet with your human resources manager to get a jump on the necessary paperwork and that's when the health insurance question comes up and you discover you are in the "gap". You're too young to receive Medicare coverage, but old enough to begin 401(k) benefits (note: you are eligible for reduced Social Security benefits at age 62).

If your employer is a typical business with fewer than 200 employees, there is only a 5% chance that you will be offered retiree health insurance. In the private market, you face a potential increase of at least triple the cost of group coverage. Do you have options other than to delay retirement? Fortunately, you do – read on for some suggestions that may help salvage that trip around the world.

1. **Switch to your spouse**
   If your spouse plans to stay in the workforce for a few more years, family coverage is probably your best alternative. You'll probably have to pick up the tab for the additional cost of family coverage, but you'll almost surely pay less than private pay.

2. **Work with your employer**
   You may work for a business that *does* offer retiree health coverage. Even if your employer does not pay for the coverage, you will probably still be better off paying for group coverage personally, so check to see if that is an option. Failing that, 19 states allow a self-employed person to qualify for group coverage as a group of one. If your state qualifies (check www.statehealthfacts.org), consider proposing a consulting contract with your employer after your retirement date.

3. **Consider COBRA**
   In a nutshell, COBRA requires employers with health plans and 20 or more employees to offer you and your dependents continued group coverage for up to 18 months after you separate from service. 40 states require COBRA expansion coverage for smaller employers (see above website). If you retire at age 63 ½, COBRA will tide you over until Medicare kicks in. The downside – you pay all premiums out of your pocket plus administrative costs. However, the cost is most likely still cheaper than open market rates.

4. **Find another group**
   Many professional organizations offer some form of group insurance for members. You may already be a member – or you may be able to join one. Although coverage will probably be spottier than what you have at work, it may be just what you need until you reach age 65.

5. **Check out private possibilities**
   You can be sure that, as more retirees face this issue, insurance companies will rush to meet the need. The "Triple A's" - Anthem, Aetna, and AARP - currently offer plans targeted to the "young retiree" market. However, they can be expensive and preexisting health conditions may be excluded if you *are* approved for coverage. According to Doug McClure, Individual Broker with Anthem Blue Cross Blue Shield in Paducah, most individual plans will cover preexisting conditions as long as the applicant has had continuous "credible" health coverage within the previous 63 days of the effective date of new coverage. Finally, deductibles will probably be high and coverage not as thorough as you have under group coverage.

   There is an additional option to consider – as long as you are considering a high-deductible policy, look into setting up a Health Savings Account ("HSA"). I tell clients that an HSA is kind of like an IRA for medical expenses, with a lot more benefits thrown in. For more information on HSAs, contact your financial advisor.

The bottom line is: plan ahead if you are contemplating early retirement. Check around for coverage options and insurability, and compare costs. Also, don't assume you're home free once you reach age 65. Even with Medicare coverage, Fidelity Investments estimates that the average 65-year-old couple will spend more than $20,000 over their joint lifetimes for medical expenses *not* covered by Medicare. Finally, although this article specifically addressed health insurance, I recommend you also seriously consider purchasing long-term care ("LTC") insurance – but that's a topic for another day!

Whatever you do, don't consider taking your chances and going without coverage for ***any*** period of time – a choice I purposely omitted. More than half the people in this age group filing bankruptcy do so due to health problems.

Retirement should be as carefree as possible – after all, you've worked hard and you'll want to make the most of it. So, Boomers, my final piece of advice would be this: before you embark on your "hip" new life, make sure you're covered in case you break one!