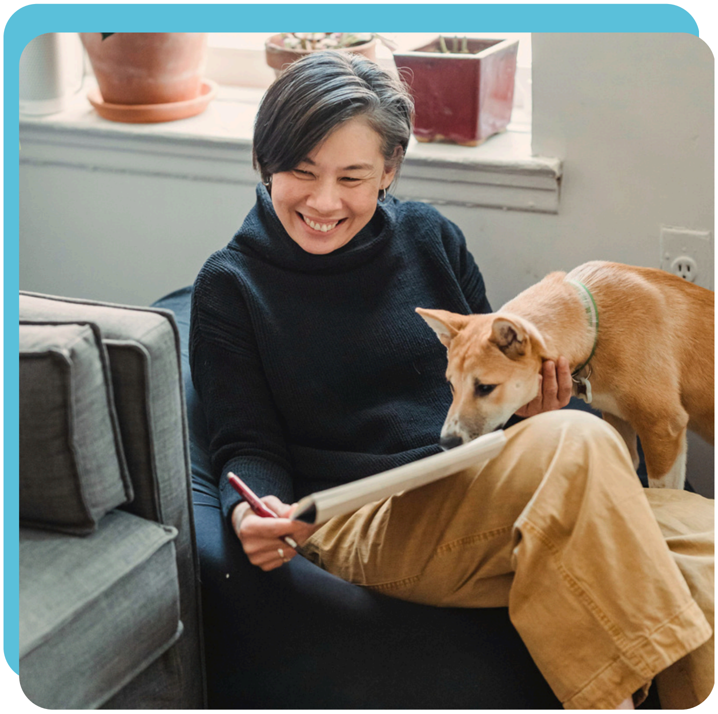
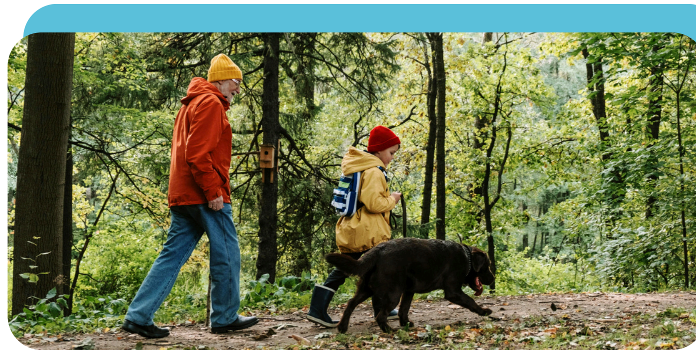
Healthcare Planning & Early Retirement: A Guide for Financial Advisors





What’s considered early retirement?

In the context of healthcare planning, early retirement means anyone who retires before the age of 65. This is because 65 is when individuals qualify for Medicare benefits, the main health insurance option for retirees. Since 51% of Americans retire between the ages of 60 and 65, before they are eligible for Medicare, this leaves a potential gap in how they mitigate the financial risks related to healthcare costs.

Let’s discuss those financial risks.

The impact of healthcare costs on retirees

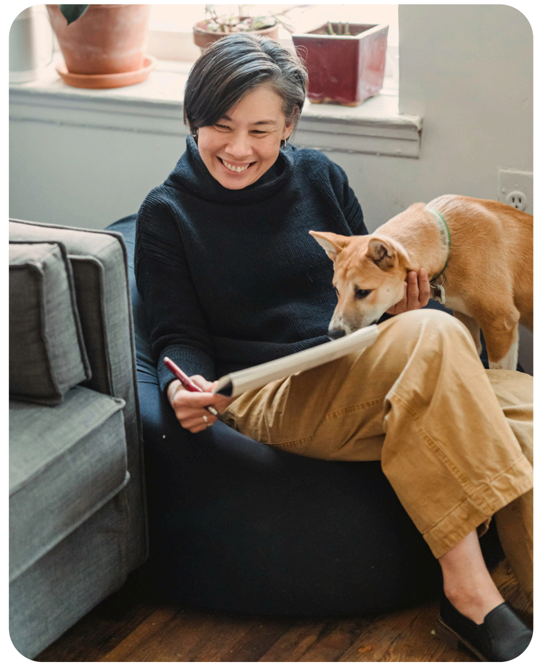
Healthcare is the 3rd highest expense in retirement, right after housing and transportation.

70% of people 65+ will eventually need long-term care, but few plan for this expense.

45% of adults 50-64 have little-no confidence in their ability to afford health insurance in retirement.

These stats are all based on the “average” couple; costs could significantly increase or decrease over a client’s lifetime depending on their unique situation, and planning becomes even trickier if they have complex healthcare needs. Personalized healthcare planning can help ensure that your clients choose their best health insurance option and that you protect their financial plan. If you’re not ready to start doing completely customized healthcare planning today, this guide is a great place for you to start. In the next several pages, we break down the health insurance coverage options for pre-65 retirees.

Marketplace



Pre-65 retirees can shop for health insurance policies on the Health Insurance Marketplace, also known as the Affordable Care Act Marketplace. Depending on the state your client lives in, they may have to use a state-specific Marketplace.

Premiums for policies sold on the Marketplace are income-based, which means the lower your client's income, the lower their monthly premium, reduced by the premium tax credit. The American Rescue Act substantially raised the income levels that qualify for premium assistance. Even if this legislation ends, couples with an income as high as $81,760 qualify for a premium tax credit. Early retirement often creates changes in adjusted gross income, so individuals who might not have been eligible for premium assistance are finding that premiums that were previously quite high have been significantly reduced for them based on their lower, post-retirement income. Marketplace plans are Affordable Care Act compliant, meaning they do not exclude pre-existing conditions, cover certain preventive care at no cost, and cover mental health benefits.

Who should consider the Marketplace?

- Clients whose selected Marketplace plan would be less expensive than COBRA or, if applicable, their spouse's health plan.

- Clients who need coverage to extend beyond COBRA's 18-month limit.

- Clients with pre-existing conditions.

COBRA

For all pre-65 retirees who had employer coverage, one of the first options to consider is coverage through COBRA. It's a common misconception that COBRA refers to a specific insurance plan, but actually, COBRA is the continuation of the plan that an individual had coverage on while employed. Since there are literally thousands of different employer-sponsored health plans available, one client's COBRA coverage is not another client's COBRA coverage.

For retirees, this coverage can last for a maximum of 18 months. That means that if your client has more than 18 months between losing their employer-sponsored health insurance and receiving Medicare coverage, they'll need to find a different coverage option for that gap.

An important note about this type of insurance is that it can be one of the most expensive options. This is because your client pays the entire premium (plus a 2% administration fee), whereas before, their employer likely paid a portion of the plan cost.

Who should consider COBRA?

- Clients who already met their deductible this year.
- Clients who want to keep their current provider network.
- Clients who need coverage for just a few months until they're eligible for Medicare.

Spouse’s Health Insurance Plan

For married couples, if one spouse will continue to work, enrolling the retiring spouse in the employed spouse’s employer-sponsored health insurance plan can be an excellent option to consider. Loss of coverage is considered a trigger for a special enrollment period, which means gaps in coverage can be avoided if planned properly.
However, it’s important to note that many employers don’t subsidize the premiums for spousal coverage, and not all employers offer coverage for anyone other than the employee. This is especially true for smaller employers.

If this is an option, evaluating provider networks, fixed costs, and maximum exposure are important elements to analyze and consider. Which is, of course, something you, the financial advisor, can help clients with.

Who should consider their spouse’s plan?

- Clients who will be covered under their spouse’s employer (AKA both the retiree and the working spouse’s premiums will be subsidized by the employer.)

- Clients whose provider network/relationships will be less disrupted than if they chose a Marketplace plan.

Short-Term Health Plans

Short-term health insurance plans offer an alternative, temporary safety net for those who feel they cannot afford ACA-compliant plans, or prefer broader network coverage than an ACA-compliant plan may offer. A finalized federal rule announced by the Departments of Treasury, Health and Human Services limits short-term health insurance plans sold or issued on or after September 1st, 2024 to three-month terms, and to total duration (including renewals) of no more than four months. These plans are not required to provide the ACA's ten essential health benefits, are not guaranteed-issue, and are not subject to other provisions mandated under the ACA. In most cases, child-only coverage is available for children aged 2 to 17. Dependent children can stay on their parent's plan until they turn 26 and the coverage is only available to adults up to the age of 64.

Short-term health plans are subject to underwriting, which means that applicants can be denied coverage due to current or pre-existing health conditions.

Who should consider short-term health plans?

- Healthy clients with no pre-existing conditions who have a short coverage gap they need to fill.

- Clients who prefer a broader network of coverage.

Healthcare Sharing Ministries

Healthcare sharing ministries are most commonly offered through faith-based organizations. Members of HSMs pool their money in a community fund; when a member becomes ill, they submit a request for the amount to cover the bill. HSMs typically match paying members with those who need funds for healthcare costs or pool all of the monthly shares and administer payments to members directly.

HSMs have long maintained that they are not health insurance companies and do not guarantee payment for members' medical claims. Since they do not meet the federal definition of health insurance, they are not subject to the consumer protections of the Affordable Care Act.

For clients with strong ethical, moral, or religious beliefs, and who like the idea of paying a lower monthly payment, joining an HSM is often an attractive option for bridging the gap between retirement age and Medicare eligibility.

Who should consider healthcare sharing ministries?

- Clients who want to receive coverage through an organization that shares similar ethical, moral, or religious beliefs.
- Relatively healthy clients who don't partake in any activities that go against an HSM's guidelines.
- Clients who prefer a broader network of coverage.

Pre-65 Retiree Benefits

Some employers, including public entities and most larger, multi-state employers, offer pre-65 retiree benefits. Although this can be a great solution, your clients might be reluctant to let their employer know they're considering retirement by inquiring about these benefits. Luckily, companies that offer pre-65 retiree benefits often have outsourced benefit managers who are independent of the employer—so the inquiry can be made confidentially to obtain rates and plan designs. The pre-65 options are usually the same options offered to active employees but with different overall costs and varying coverage for spouses and dependents.

It's important to note that many retiree benefits plans are becoming less robust, and may not be the same plan that a client had when they were employed.

Who should consider pre-65 retiree health benefits?

- Clients who can confirm the availability and costs online or with an outsourced benefit manager.
- Clients who want to continue their current benefit structure and provider networks.

Summary and Next Steps

Healthcare planning is a major component of a successful early retirement plan. Making sure your client chooses the optimal health insurance option for their needs, preferences, and goals so they don't experience a gap in coverage or spend too much will save you, and them, an unnecessary headache.

This guide is a great way to learn all the coverage options available to your clients who want to retire before 65, but at the end of the day, health insurance is a complex industry. Most advisors don't have the expertise or time to guide each and every client through a detailed health insurance analysis all on their own.

Lucky for you, there's a low-cost way to offer comprehensive, unbiased healthcare planning to all your clients—partnering with Move Health. Our tech-enabled, human-driven process means you can offer in-house healthcare planning without becoming a healthcare expert. We offer a technology solution for healthcare planning alongside a team of licensed experts who will go over the HealthPlanning Analysis with clients and help them enroll in their ideal plan.

We understand that like retirement plans, health insurance shouldn't be one size fits all. Move Health can find and optimize health insurance solutions for early retirees across a myriad of coverage options to meet their unique needs.

Ready to see how we can help you and your pre-65 retiree clients?

Show Me How Move Health Works