Medical Insurance for Retirees: Basics You Need to Know

Last update: June 3, 2014

Summary

For most of us, medical insurance is important because it guards us against catastrophic financial losses if we develop an expensive medical problem. It also encourages us to seek medical care when we need it, because most of the costs are already paid for.

Because Medicare kicks in at age 65 for U.S. citizens, your situation changes significantly at that age. This paper address issues you should consider in both situations.

Medical coverage before age 65

If you are under age 65, you may have group health insurance provided by an employer, you may have individual health insurance that you or a family member pays for, or you may be covered by the Veteransô Administration, or in some other way. If you are not covered, though, you should be.

Some people feel that they donôt get much from their insurance, because their medical costs are modest. But health insurance, like fire insurance, is there above all to protect against catastrophe. Expenses associated with some medical conditions run into the hundreds of thousands of dollars, occasionally higher. Without insurance, such a problem could wipe out most or all of your savings.

Having medical insurance also makes it cheaper to see a doctor for routine check-ups and tests, reducing the likelihood that you will need dramatic medical care in the first place.

Fortunately, under the federal Affordable Care Act (ñObamacareò), insurers are no longer be able to refuse coverage based on pre-existing conditions, so you *could* wait until you are sick, and then get insurance. But it will probably cost you a lot more. With insurance, it is always best to get it before you know for sure that you need it. And it is generally more accessible and affordable now for people in their early 60s than it used to be.

Prompt action is especially important if you have been covered by an employer, but are losing that coverage. You do have the right, under Federal law, to continue to be covered, without regard to previous medical conditions ï though you will have to pay premiums yourself, which can be difficult if you are unemployed, but a lot less difficult than paying for care out of pocket if a serious accident or illness occurs. But if you do already have medical problems you should do whatever you can to keep your coverage going, because it may be more expensive to resume it later if you wait too long. Many people actually time their retirement around their health insurance coverage.

And if you do need individual coverage before age 65, donôt assume that continuing the coverage your employer offered is your best option. Compare several plans, and make sure you weigh both the costs and the benefits ï saving money on premiums can turn out to be a poor choice if you need care later and have high deductibles or co-payments, or if your medical needs are not even covered by your new plan.

Medicare, and coverage after age 65

All U.S. citizens are eligible for Medicare at age 65. It does not cover all medical expenses, but it covers a lot:

- If you are under the original Medicare scheme (Parts A and B), you get Part A automatically, but you have to pay a monthly premium to get Part B. Although the premium goes up every year, Part B is a good deal, and if you are under the Part A / Part B arrangement, you should sign up for it.

    ◇ Part A (no charge, for most people) covers most of your costs for hospital stays. It also provides some coverage for skilled nursing care, home health care, and hospice care, but does not cover custodial care (e.g., help with activities of daily living), *long-term* nursing or home health care, or hospice care.

    ◇ Part B (monthly premium required) covers many other medical costs, including many doctor visits, medical tests and screenings, emergency services, physical therapy, outpatient hospital services, flu shots, and durable medical equipment items to be used at home (such as hospital beds, wheelchairs, and walkers).

    Excluded are acupuncture, most chiropractic services, cosmetic surgery, custodial care, most dental care, most eye care, most foot care, most hearing tests and hearing aids, many laboratory tests, long-term care, most orthopedic shoes, routine physical exams, and health services while traveling outside the U.S. And items that are covered may be subject to some exclusions, limits, deductibles, and co-payments.

    ◇ Part D (monthly premium required) provides substantial coverage for prescription drug costs, which are not covered under either Part A or Part B.

- Medicare Part C replaces parts A and B for those who choose it. Part C (often called a Medicare HMO or Medicare + Choice or a Medicare Advantage Plan) allows you to choose a local HMO (health maintenance organization), PPO (preferred provider organization) or other health provider that cooperates with Medicare to cover all the services provided by Medicare Parts A and B, *plus* whatever additional benefits and services the local provider chooses to offer. These plans typically cover many of the gaps in Medicare Part B, and provide overall coverage similar to what HMOs or PPOs cover for their pre-age-65 patients.

    A premium payment is required, and it may be less (but is usually more) than you would pay under the Part A/B arrangement. If a former employer is paying for some or all of the premium, itôs an even better deal.

    You will still need Medicare Part D, with its additional premium, if you want prescription drug coverage, though.

If you are not yet 65, but will be soon, the government urges you to contact your local Social Security office about three months before you reach age 65, to get the Medicare sign-up process rolling. Contact them even if you are still working. Penalties often apply if you delay your Medicare enrollment, so talk to your local office about your situation. If you are still employed, also check with your employer to see if your group coverage will be terminated or reduced at age 65.

If you are age 65 or over, how do you fill the gaps?

There are several kinds of insurance you should consider:

- If you are under Medicare Parts A and B, there are quite a few medical needs that are not covered. So-called ñMedigapò insurance policies fill these holes, plus cover deductibles and co-payments ï or you can switch to a Medicare HMO or PPO under Part C. You can get Medigap policies from a variety of private insurers. In general, adding Medigap insurance (or switching to a Medicare HMO or PPO) is a good idea, but you should shop around for a plan that provides the benefits that you yourself most care about, and at a good price.
- Care outside the U.S. is not covered by Medicare. If you travel abroad, you should consider travel insurance.
- Long-term care insurance can cover most or all of your costs if you eventually need long-term nursing care, assisted living, or home-based health care, for an extended period of time. Neither Medicare nor private medical insurance covers these needs if they last more than a few months, so this kind of insurance can be a godsend, if you turn out to need it. But it is also very expensive, so your decision should be made with care. Another paper in this series, ñLong-term Care: Basics You Need to Know,ò covers this topic in more detail.
- Disease-specific insurance. You can buy insurance that will cover you only for specific diseases, such as cancer, or for a range of critical illnesses. Such insurance is usually not a good financial bargain for retirees, because Medicare and other insurance can already cover most of your needs regardless of what diseases you may get. But sometimes people want it anyway, because they fear they have a susceptibility to a particular disease, and the added insurance gives them extra peace of mind. Also, such policies do typically cover extra costs like transportation and special meds

What to look for in Medigap insurance and Medicare HMOs or PPOs

- Medigap insurance generally has some advantages over Medicare HMOs or PPOs:
  - ◇ It usually can be obtained at lower cost, if you don't want (or can't afford) to cover all the gaps in Medicare.
  - ◇ You will not be restricted in which doctors or medical facilities you can use ï which is particularly helpful if you travel a lot inside the U.S.
  - ◇ Medigap policies come in clearly-defined types, labeled plans A through N, with Plan A covering the fewest Medicare gaps, and Plan G covering the most (now that Plans E, H, I, and J are no longer sold to new customers, though people who already have them can keep them). Plans K thru M do not cover the small stuff, and only kick in when your out-of-pocket expenses become fairly large or, in the case of Plans M and N, require larger co-payments on certain costs. Premiums reflect those differences. However, not all insurers offer all plans in all areas.

- ◇ You may not even have a Medicare HMO or PPO in your area, in which case Medigap coverage is your only choice, other than paying for non-covered services out of pocket.

- Medicare HMOs/PPOs also usually have some advantages over Medigap insurance:

  - ◇ They are not tied to the Plan A through Plan N scheme, so they can offer you whatever packages of covered benefits they choose. There might be something that makes more sense for you than the Medigap plans.

  - ◇ Medicare HMOs or PPOs typically cost somewhere between the least and most expensive Medigap plans. They may well offer you an overall deal that works much better for your needs and preferences.

  - ◇ If your former employer subsidizes coverage under a local Medicare HMO or PPO, this can be a truly excellent deal.

- Comparing costs on Medigap plans

  Different insurance companies may charge different premiums for the same Medigap plan. But before you go with the lower-cost premium, make sure it really is comparable. Some insurance companies will increase the premiums over time based on your increasing age (this is called ñattained-age ratingò), while others will impose increases only if they are increasing prices for people who are the same age you were when you first signed up (ñissue-age ratingò). Attained-age rating usually means a lower premium to start with, but much higher annual increases.

  But prices may differ for other reasons, too. Comparison shopping can save you a lot of money.

- Is the insurance company one that you know and trust?

  Your insurer can cause you problems down the road either by raising premiums more than their competitors do, or by providing inferior service when you put in a claim. You can't be sure which companies will perform best in the future, but you might want to check with older friends and relatives to see what experiences they have had.

- Also watch out for:

  - ◇ If your medical expenses are not very high, and your health is good, you may find that it costs you more (maybe a lot more) for Medigap premiums than what you would pay out-of-pocket on your own. Keep in mind, though, that your health could change, and if it does, you might have to wait (and/or pay more) to be covered for your new problems if you have not had Medigap insurance all along. If you are willing to take that risk, you should still consider a Medigap Plan K or Plan L, that lets you pay your own normal expenses and therefore costs a lot less, but helps cover you if you run into a serious problem and your medical costs exceed. $2,000 a year (for Plan L) or $4,000 (for Plan K).

  - ◇ Under a new policy you are considering, do you have to wait (and if so, how long) before you are covered for medical problems you already have?

- ◇ Do you have the right to switch to a different Medigap plan later?
- ◇ Are you restricted in which doctors you can use? In some states, you can get ñMedicare Selectò plans, which are just like Medigap Plans A thru Plan L, except they limit your choice of providers. These plans cost less, but you might want to make sure your doctors are included in such a plan before you sign up.
- ◇ Medigap policies cover only one person. If you are married, and you both want Medigap coverage, you must each have your own policy.
- ◇ Bear in mind that Medigap plans do not cover long-term care, dental care, vision care, hearing aids, private duty nursing, or outpatient prescription drugs. You still have to pay for these out of pocket, or with other insurance (e.g., long-term care insurance, or Medicare Part D for prescription drugs).
- ◇ Remember, Medigap policies only work in combination with the traditional Medicare Part A and Part B plans ï not with Medicare HMOs or PPOs or other ñMedicare Advantageò programs. So if you are in one of the latter kinds of plan, Medigap coverage is a waste of your money. (In fact, it is illegal for anyone to try to sell it to you in that situation, so report them to Medicare!)

Where can you get Medigap insurance?

You may have the best choices if you enroll in a Medigap plan at the same time ï i.e., within about two months ï of when you sign up for Medicare Part B.

Internet search engines can lead you to many sources of quotes for Medigap insurance online. But you will need to provide detailed medical information before the exact terms of many plans can be settled, so you may well be better off working with a local insurance broker familiar with the plans and the claims experience in your own area. If you donôt already know of such a broker, the National Association of Health Underwriters can help you, at http://www.nahu.org.

Watch out for fraudulent offers. *America's Health Insurance Plans*, a health insurance industry group, recommends that you keep your eyes open for these warning signs:

- Offers ñtoo good to be trueò
- Requirements that you join an organization or pay dues
- Companies that promise to insure everyone, regardless of health
- Marketing materials that do not use the term ñinsuranceò
- Requests for large payments up front, or payment in cash
- No plan documents provided when you apply, or afterwards.

If you already have health problems that prevent you from purchasing insurance direct from a commercial insurance company, your state may have a high-risk insurance pool for people like you, enabling you to get coverage. Many states had such pools even before the 2010 federal health insurance law, and that law provides that insurance must be

available to all, so you should be able to get it as the new law takes effect, even if you couldnôt before.

Your state may offer other cost-saving programs, too. Contact your stateôs Health Insurance Assistance Program for information (call 800-633-4227 toll-free to find out the phone number of the office in your state).

Finally, in this category, donôt waste your money buying multiple plans. Youôll pay premiums on all of them, but when you have a claim, only one of them will pay. Pick one plan that does the job, and stick with that.

What about prescription drug coverage under Medicare?

If you are 65 or over and have significant costs for prescription drugs, Medicare Part D will usually pay for most of them. However, there are many, many versions of Part D coverage. These vary greatly in how they work, and in what drugs they cover. Fortunately, most pharmacies will compare for you the drugs you actually use against the plans available in your area, and make a recommendation about which plan is best for you. We suggest that you avail yourself of these services.

For More Information

Check out the RetirementWorks Retirement Readiness page on Managing Risk, particularly the section on ñThe risk of illness or incapacity ñ.