JVL Associates, LLC NEWSLETTER

March 2019

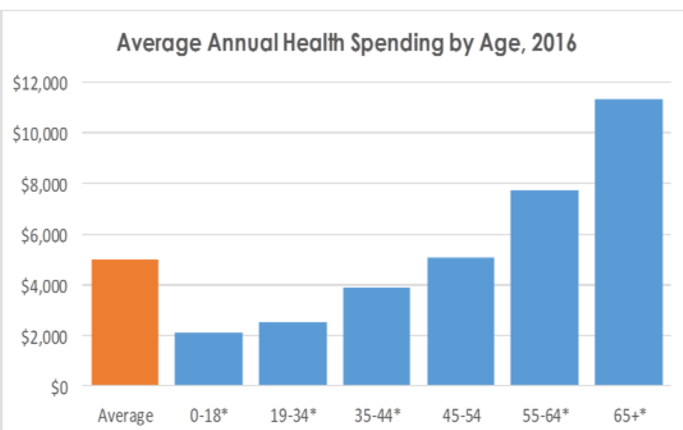
Navigating Post Retirement Health Insurance Decisions

In this quarter's newsletter, we focus on post-retirement health insurance planning. For some, this can include the "gap-period" of time between retirement and Medicare age. We also explain the Medicare process and coverage options in more detail.

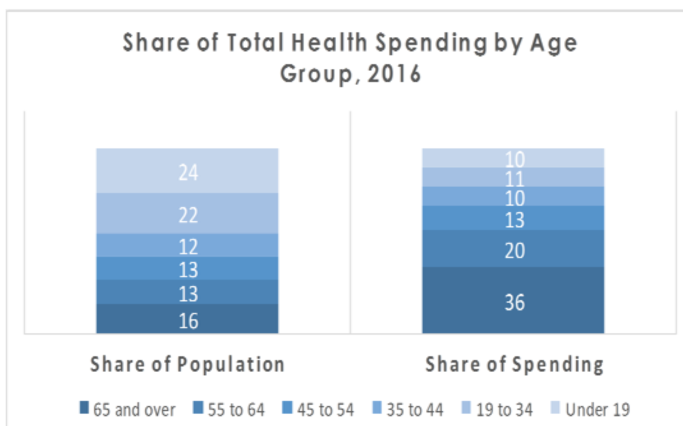
For many individuals, planning for and selecting health insurance coverage can be overwhelming. This is especially true for retirees who are not yet of the age to qualify for Medicare (under age 65) and are no longer participating in an employer-sponsored health insurance plan.

Past generations had access to employer or union sponsored retiree health insurance coverage. Most individuals nearing retirement age today do not have access to such plans as companies have shifted that risk to their employees, similar to the shift from Defined Benefit Pensions towards employer sponsored retirement savings such as 401(k) plans.

It is estimated that an average retired couple may need approximately $285,000 saved (after tax) in today's dollars to cover health care expenses in retirement.[1] Annual health care expenses are also estimated to be about 15% of the average retiree's annual expenses.[2] Planning for health care costs should be an important piece of everyone's financial plan.



* The average value age group is statistically significant from the population average ($p<0.05$)
Source: KFF analysis of Medical Expenditure Panel Survey



Source: KFF analysis of Medical Expenditure Panel Survey

Byron and Claire:
We will follow Byron and Claire, a fictitious married couple who are contemplating their retirement health insurance options. This exercise is meant to illustrate the decisions that typical retirees face. It is not intended to necessarily reflect an actual situation and comparisons of costs and features will be different in the real world. Consult with your financial advisor.

Byron and Claire: Year 1

In our example, Byron and Claire are both currently age 62 and considering retirement. Claire plans to continuing working for 1 more year while Byron would like to retire today. They both participate in a family health insurance plan offered through Byron's employer.

With Byron's impending retirement, the couple has several options to cover their health insurance needs during the period between now and their respective age 65 when they will both qualify for Medicare (see table).

For simplicity sake, we are assuming that the insurance options offered in the table have the same benefits structure (deductibles, coinsurance, copays, coverage, etc). In reality, there are a variety of different plans with different features. Also, cost of coverage can vary widely which is a major factor in the analysis and is specific to each family's situation and policy.

Although continuing Byron's coverage under his prior employer's plan would be convenient and familiar, they discover that the employer paid for 75% of the total premium cost while he was employed. Under COBRA, Byron would be responsible for 100% of the cost plus a 2% administrative fee which is significantly higher than what he was previously paying while employed.

After analyzing their options for the first year of retirement, Byron and Claire determine that signing up for coverage under Claire's employer's plan may be the most cost effective option.

Pre Medicare Retiree Health Insurance:

Coverage Type	Length of Coverage
COBRA: Byron can continue his employer coverage.	Coverage continues for 18 months following the month he retires.
Spouse Health Insurance: Claire has coverage through her employer and could sign up for a family plan while she is still working.	As long as Claire continues to qualify for the health insurance plan (Plans to continue working for 1 year).
Marketplace Coverage: The couple can apply for benefits online on the insurance marketplace created by the Affordable Care Act (ACA).	Individual or family plans can be selected from a list of different participating insurers. Coverage is renewed each year and is in force as long as premiums are paid. A **Premium Tax Credit** can be available to offset the cost of the premium if their income is below 400% of the federal poverty line.
Private Insurance: Similar to ACA Marketplace coverage but bought directly through insurance carrier instead of the online marketplace.	Similar to the options under the ACA market place but may have more options available. The Premium Tax Credit is not available to these plans. Subject to health underwriting and no guarantee coverage will be offered.
Medishare (Religious): Health sharing is not insurance but can satisfy the ACA health coverage requirements. Members pay monthly share amounts which are matched to other members' health costs.	Typically a religious statement of faith is required and attestation to other requirements such as no use of tobacco, illegal drugs, or abuse of legal drugs. There are many more features of these plans that need to be explored prior to joining.

Byron and Claire: Years 2-4

Now age 63, Claire would like to retire. Claire has the option to continue the family health insurance coverage that they started last year through her employer under COBRA but finds that the cost is prohibitive since she would have to pay 100% of the premium including the part that her employer was covering while she was employed. Since both individuals are still not eligible for Medicare (under 65), they look to options on the ACA Marketplace and Private Insurance.

Planning ahead, Byron and Claire saved up enough funds in an investment account to provide for their spending needs for the next 3-4 years. Working with their financial advisor and tax professional, they determine that their household income is low enough to qualify them for a Premium Tax Credit under the ACA Marketplace plans. Due to the attractive cost of the premium net of the tax benefit, they select an ACA plan for their health insurance coverage and renew each year through their ages 63-65.

Medicare Overview:

Before we continue our journey with Byron and Clarie, we will give a brief overview of Medicare in general (see page 5 for detailed summary of Medicare features).

Funding: Through your working years, you and your employers paid Federal Insurance Contributions Act (FICA) tax which is typically withheld from your wages. Part of these payments go towards funding the Medicare system.

- 6.2% tax on wages up to a limit ($132,900 for 2019) which goes toward funding Social Security Benefits.
- 1.45% tax on all wages (plus 0.9% surtax when employee earns over $250k married filing jointly) which goes toward funding Medicare Benefits
- Employer matches the amount of FICA tax you paid

Eligibility: Everyone age 65 and over is eligible for Medicare. For those who have worked 10+ years, the cost of Part A is free. For those who have worked less than 10 years, there may be a monthly premium for Part A.

Choosing Medicare Coverage: There are two main paths to signing up for Medicare.

1. **Traditional Medicare** (A, B, Medigap, and D)
2. **Medicare Advantage** (Part C)

The specifics of both paths are summarized in the table to the right. Medicare enrollees will have to choose one of the two paths.

With ***Traditional Medicare***, many enrollees will need to evaluate Medigap policies offered through private insurers to determine what is best for them regarding their additional coverage and cost. The enrollee will also need to coordinate the administrative process of which costs are covered by which part (i.e. prescription drug expenses with Part D, Doctors visits with Part B).

1) Traditional Medicare	Cost
Part A) Hospital Coverage: Inpatient care in hospitals, including critical access and long-term care hospitals.	No cost if you or your spouse contributed Medicare tax for 10+ years.
Part B) Medical Coverage: Doctors' services and outpatient care when medically necessary.	Means-based monthly premium determined by income on a sliding scale starting at $135.50 for < $170k joint income to $460.50 at $750k+ joint income (determined by most recent tax return on file in January, 2 year delay) See page 5 for more detail on the means-based monthly premium.
Medigap) Supplemental Insurance: Private insurance that pays for costs that Parts A and B do not cover such as copays, deductibles, and coinsurance. There are 10 different supplemental plans available, each with different features.	Monthly premium costs (in addition to Part B premium) among the different supplemental plans with varying benefits that supplement what Parts A and B do not cover. If enrolling in initial enrollment period, cannot be denied coverage due to pre-existing conditions and pay the same price as someone in good health.
Part D) Prescription Coverage: Available in standalone plans or as part of Medicare Advantage. Provided by Medicare-approved insurance company.	Means-based monthly premium (in addition to Part B premium) with varying benefits and plan costs.

2) Medicare Advantage	Cost
Part C) Medicare Advantage: Combines doctor (Part A), hospital (Part B), and often drug coverage (Part D) into one plan provided through a Medicare-approved insurance company.	Monthly premium (in addition to Part B premium), annual deductible, coinsurance, and copayments.

Medicare Advantage policies combine all of the parts (A,B,D) into one insurance policy and all costs are coordinated by the insurance company (one insurance card). Dental and Vision insurance can also be a part of these policy offerings.

One important factor to note, you cannot have both Medigap coverage and a Medicare Advantage policy, they are mutually exclusive.

Medicare Enrollment:

Initial Enrollment: In the year of an individual's 65th birthday, they can sign up for Medicare starting the 3 months before the birth month and 3 months after the birth month. The earliest that coverage can start is the birth month.

If an individual is currently receiving Social Security benefits at age 65 they will be automatically enrolled in Parts A and B effective in their birth month.

Permanent Penalty: If an individual misses the initial enrollment period and does not qualify for a Special Enrollment Period, they can sign up between January 1st and March 31st of each year. ***However, these individuals may have to pay a permanent annual 10% penalty for each 12 month period for which they were eligible but didn't enroll.***

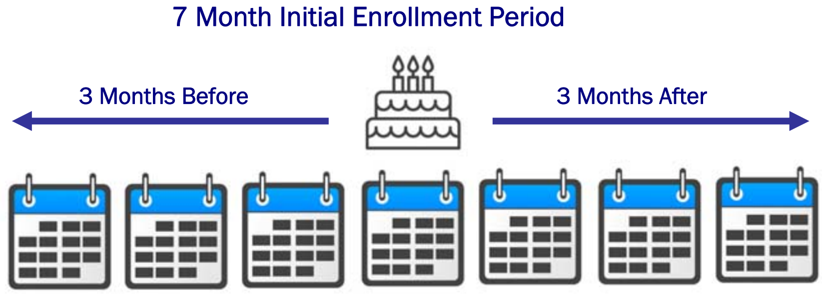
Special Enrollment Period: For as long as an individual turning 65 has group health insurance from an employer with 20+ employees for which the individual or their spouse actively works, they have the right to delay enrolling in Medicare until the employment or the coverage stops, whichever happens first. At that point, the individual is entitled to a special enrollment period of up to eight months to sign up for Medicare without incurring any late penalties.

At this point the individual can:

1) Accept employer plan / delay Medicare
2) Decline employer plan / rely on Medicare
3) Have both coverages at the same time (employer plan is primary)

The key idea here is "actively employed". An individual cannot delay Medicare without penalty if the group coverage comes from COBRA or retiree benefits.

Annual Election: An individual can change their Medicare coverage and Prescription coverage each year from October 15th through December 7th.



Byron and Claire: Year of Medicare:

Moving back to Byron and Claire in the year that they turn 65:

- Byron's birthday is in April and Claire's is in June.
- Both are still on the marketplace family plan to start the year.
- Byron started receiving his Social Security Retirement benefit last year and Claire plans to wait until age 70 to start hers.
- Byron and Claire contributed to an Health Savings Account for the past several years since their high deductible ACA plan qualified them for this benefit.

Byron: Since Byron turns 65 in April, he has the ability to start the enrollment process in January. If he did nothing, he would be automatically enrolled in Parts A and B since he is currently receiving his Social Security Benefit. He evaluates the different options available to him and concludes the convenience and coverage options of the Medicare Advantage plan makes sense for his needs. His part B premium is deducted automatically from his Social Security monthly benefit.

Claire: Claire's birthday is in June, so she can start the process as early as March. Since she is not currently receiving Social Security benefits, she will need to actively enroll or potentially be subject to a permanent penalty. She discovers a couple of issues:

- With Byron enrolling in Medicare, he will no longer be a part of their ACA family plan.
- Byron will no longer be enrolled in a plan that qualifies as a high deductible plan allowing for Health Savings Account (HSA) contributions.

Byron and Claire review tax rules associated with HSA contributions and determine the pro-rata share that they are able to contribute for the year (less than the full family amount). Claire then decides to go the Medicare Advantage path and signs up for coverage. Starting in June, she receives a bill for her premiums (including Part B) and pays these out-of-pocket since she is not currently receiving her Social Security benefit. She also works with her current health insurance provider to make sure that she does not have a gap in insurance coverage between April, when Byron starts Medicare and their ACA plan is no longer a family plan, and June, when she starts her own Medicare coverage.

Medicare Overview: Detailed 2019 Summary

Path 1

Part	Coverage	Cost
Part A) Hospital Insurance	• Hospital care • Skilled care coverage for 100 days following a 3-night or more admittance to a hospital • Hospice • Home care coverage only when certified by a physician, because Medicare typically will not cover the expense of long-term care in your home	Each benefit period: • **Monthly Premium:** $0 • **Deductible:** $1,364 • **Co-insurance:** - Days 1-60: $0 - Days 61-90: $341 - Days 91-150: $682 co-insurance per each lifetime reserve day (up to 60 lifetime reserve days, after which you are responsible for all costs)
Part B) Medical Insurance	• Doctor and physician services • Preventive benefits • Durable medical equipment • Outpatient services	• **Monthly Premium:** See premium table below • **Deductible:** $185 • **Co-insurance:** 20% on doctors' services and outpatient care

If your yearly income in 2017 (for what you pay in 2019) was			You pay each month (in 2019)
File individual tax return	**File joint tax return**	**File married & separate tax**	
$85,000 or less	$170,000 or less	$85,000 or less	$135.50
above $85,000 up to $107,000	above $170,000 up to $214,000	Not applicable	$189.60
above $107,000 up to $133,500	above $214,000 up to $267,000	Not applicable	$270.90
above $133,500 up to $160,000	above $267,000 up to $320,000	Not applicable	$352.20
above $160,000 and less than $500,000	above $320,000 and less than $750,000	above $85,000 and less than $415,000	$433.40
$500,000 or above	$750,000 and above	$415,000 and above	$460.00

Part	Coverage	Cost
Part D) Prescription Drug Coverage Available two ways: • Stand-alone prescription drug plans (PDPs) • Medicare Advantage plans (MAPDs)	• Covered drugs vary by plan	• **Monthly Premium:** Varies by plan • **Deductible:** Up to $415 • **Co-pay:** 25% or flat co-pay amounts based on formulary • **Coverage gap (donut hole):** $3,820 to $8,920 in total drug costs • **Coverage gap the insured pays:** 25% of the cost on brand name medications and 37% of the cost on generic medications during coverage gap • **Catastrophic coverage is reached after $5,100 is spent out of pocket:** 5% minimum co-pay after coverage gap, $3.40 generic or $8.50 brand medication costs

Path 2

Part	Coverage	Cost
Part C) Medicare Advantage	• Covers the services that Original Medicare covers, except hospice care • May cover hearing, dental and vision treatment	Costs vary by plan. Visit Medicare.gov or call the insurance providers you are interested in for more details. The insurance companies (rather than Medicare) set the amount they charge for premiums, deductibles, and services. What you pay the plan may change only once per year on January 1

Source: Nationwide Retirement Institute "Understanding Medicare" Whitepaper 2018 - O'Mara, Tim (2019 numbers updated from Medicare.gov)

Conclusion:

We believe analyzing and coordinating the execution of retiree health insurance options is an important and significant part of every individual's and family's financial plan. Policy features are not always an apples-to-apples comparison, and it can be hard to make an informed decision because of this. Also, many income tax and Medicare specific rules come into play during the process that need to be weighed and considered.

In many cases, decisions related to retiree health insurance can be suboptimal and uncoordinated with the rest of an individual or family's overall planning. At JVL Associates, LLC our mission is to create an integrated financial plan that helps our clients make informed decisions, including decisions on retiree health insurance plans and benefits.

We deeply value the trust our clients place in us. If you know of someone who could benefit from our experience, please let us know.

All of our newsletters can be found on our website at www.jvlassociates.com Feel free to pass the link along.

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Sources:

1.Fidelity Benefits Consulting estimate; 2019. Estimate based on a hypothetical couple retiring in 2019, 65 years old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates with Mortality Improvements Scale MP-2016. Actual expenses may be more or less depending on actual health status, area of residence, and longevity. Estimate is net of taxes. The Fidelity Retiree Health Care Costs Estimate assumes individuals do not have employer-provided retiree health care coverage, but do qualify for the federal government's insurance program, Original Medicare. The calculation takes into account cost-sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by Original Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services and long-term care.

2. Fidelity Benefits Consulting estimate; 2019