Healthcare Without Medicare

Special Report: Healthcare & Retirement

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Some numbers have long been vital for retirement planning. At age 59 and a half, you can tap retirement plans without paying a 10% surtax. At 62, you can begin to collect Social Security retirement benefits. And at 65, workers and their spouses qualify for Medicare, the federal health insurance program. In recent years, a new number has been added to that list. "I celebrate the 63 and a half birthday for clients," says Dave Gardner, who heads Yellowstone Financial in Boulder, Colo. "That is when they've reached the point where COBRA coverage can take them all of the way into Medicare eligibility."

Sixty-three point five has become a key milestone for a couple of reasons. First, there's the decline in employer-provided health benefits for retirees. Just as pensions are waning among private employers, so too are fewer companies offering group healthcare coverage to long-serving employees. Only 33% of employers with more than 200 employees provide retiree health benefits, down from 66% in 1988. Among small employers, such benefits are almost nonexistent.

Second, the acceleration of medical costs shows no sign of slowing. Today, a modest outpatient procedure such as kidney stone removal can cost upward of $20,000; without some health insurance, a few days' stay in a hospital can decimate a retirement portfolio that took decades to accumulate.

"I have had clients who said they were in perfect health, so they figured they could go without health insurance for a few months until they were eligible for Medicare," says Ernest Hathaway, co-founder of Financial Strategies Institute in Midvale, Utah. "Bad idea! A fall, a heart attack or any another medical problem could totally wipe out their retirement savings."

Are Your Clients Insurable?

Making preretirement planning all the more urgent is the fact that, these days, private health plans may turn down as many as 30% of early retirees. "I am surprised by the number of seemingly healthy clients who do not qualify for individual coverage," says Linda Campbell, senior financial planner with Budros, Ruhlin & Roe in Columbus, Ohio.

Examples of seemingly minor conditions that have resulted in underwriting declines, riders, exclusions or significant premium increases include allergies, asthma, treatment for depression or attention deficit hyperactivity disorder, periodic injections for back pain, "white-coat syndrome" (blood pressure readings that are high at a doctor's office but normal at home), and multiple C-section deliveries, according to Campbell. Michael Chamberlain, a financial planner in Santa Cruz, Calif., adds hemorrhoids and bunions to the list. Only five states—Maine, Massachusetts, New Jersey, New York and Vermont—have so-called "guaranteed issue" laws that ensure coverage for all individuals at standardized prices. While this system results in higher premiums for everyone, it prevents such discrimination.

Therefore, for many under-65 retirees, the most important question is "How's your health?" says Kathy Bailey, president of The Summit Agency, an insurance agency in Austin, Texas. "Each carrier has a list of declinable health conditions," she says. "Also, if someone has a preexisting condition, such as a bad knee, or has had knee surgery, for example, he or she might be accepted with an exclusion rider on the knee." So the first question to discuss with clients is how much of a battle it will be to get coverage; next, of course, comes how to get it most effectively.

The Policy Hunt

As soon as a client starts talking about the possibility of retiring early—whether willingly or because of downsizing—it's time to start developing a strategy for continuing health coverage. Here are some routes to explore.

Count on COBRA. Under COBRA, a federal law, employers with 20 or more employees must allow departed workers to maintain their group health coverage for up to 18 months, albeit at a much higher cost. In some cases, COBRA may be extended for up to 36 months, but 18 months is the norm. Thus, many employees stay on the job until age 63 and a half, when they can retire and use COBRA to fill the gap until age 65.

But the COBRA-to-Medicare route does not always work. COBRA doesn't protect employees of very small companies, nor employees of companies that closed down and ended their health plan. Some clients will retire earlier than 63 and a half, voluntarily or involuntarily. In such circumstances, COBRA won't fill the pre-Medicare gap. Among married clients, one spouse's group health insurance may cover the vulnerable spouse. If that's not the case, you'll have to explore other arrangements.

Make a deal. "One approach is to negotiate with your employer to keep you on the company plan at your own expense," Hathaway says. "This works best with smaller employers." Hathaway has one client who continued to do some consulting work for his employer and stayed on the payroll. "He made a lot less money, worked a few hours that he controlled, but got medical insurance benefits."

One negotiating goal might be to bring working hours down to the minimum that qualifies for insurance. "I had a client who was a national sales manager," Hathaway says. "He wanted to retire early. His company had an opening two steps down the ladder, at the area manager level. My client took the job, reduced the time he spent working and improved his lifestyle. It was a step toward retirement." Another of Hathaway's clients used some of his final payout (paid time off, bonus, deferred compensation) to pay his ex-employer in advance for keeping him in the system until age 63 and a half, when he could move to COBRA.

Change jobs. Rather than negotiate with an existing employer, a pre-Medicare client might seek out a new, perhaps less demanding job that offers health insurance benefits. "Some well-known national companies allow part-timers to participate in their group health plans," says Ken Sperling, senior vice president of CIGNA Senior & Retiree Services in Bloomfield, Conn. "Even if you have to use all of your earnings to pay the health insurance premiums, it might still be worthwhile." According to a 2006 Bureau of Labor Statistics National Compensation Survey, 22% of part-time workers have access to medical benefits; at many companies, it's available to those who work at least 20 hours a week.

Hathaway has another client who retired from a post as a software company executive and lacked coverage. "He took a job teaching beginning computer skills at a grade school in his neighborhood, for the insurance benefits."

Generate a group. Depending on state rules, retired clients seeking health insurance can go into business for themselves. "Frequently, clients continue to offer consulting or other services after retirement," says Campbell. Some states, such as Colorado, Florida and Massachusetts, require that insurers cover self-employed "groups" consisting of a single person, while some 38 states plus the District of Columbia require insurers to cover small groups, usually defined as 2 to 50 employees.

According to Campbell, clients living in states that don't require insurers to cover the self-employed can hire their spouses to do bookkeeping or provide other services. "Then they'll meet the minimum employee requirement of two and qualify for group coverage," she says, "which cannot be denied for specific health conditions."

In California, for example, a group plan consists of two or more individuals. "The group must work for a legitimate business with all the necessary paper filings, even if there is little income," Chamberlain says. "In some cases, this is the only way a person can get covered. If this might be a concern, the business should be up and operating before the person retires."

Join the club. Association health plans, which clients can access by joining some kind of affinity group, are another potential source of coverage. However, these plans are not always ideal. "Clients may have to answer medical questions," Sperling says. Premiums may be high or coverage might be denied all together. Sam Gibes, senior vice president of eHealthInsurance in Mountain View, Calif., points out that some association health plans offer limited coverage, rather than true major medical insurance.

Nevertheless, there are times when association plans work well. Kevin Brosious, president of Wealth Management, Inc., in Allentown, Pa., has as clients a married, early retiree couple who opened a small business and got group health insurance via the local chamber of commerce. They save $500 a month with this group plan, versus getting health insurance on their own.

Perhaps the most ambitious association health insurance program was launched in January by AARP, which is working with Aetna to offer coverage to members ages 50 to 64. "We have a suite of products," says Laurie Brubaker, chief operating officer for Aetna's Consumer Business Segment, based in Arlington, Texas. "Some are lower priced while others provide more benefits. And members can be covered while traveling, which is important to many people of that age."

So far, the AARP-Aetna coverage is available in about half the states. There is medical screening, but underwriting is relatively generous, according to Brubaker, in recognition of health conditions likely to be found in the 50-plus age group. "We are more likely than other insurers to cover people with conditions such as hypertension, high cholesterol and high BMI [body mass index]," she adds.

Indeed, Gloria Smith, founder of Catalyst Wealth Management in Chicago, already reports some success with AARP-Aetna's tolerant health screens. Smith says one of her clients applied to this new program with a history of breast cancer more than five years ago, plus several intestinal surgeries and consultations for minor mental health issues. The client, who is retired in and her mid-fifties, was accepted quickly and pays just $350 a month for a plan with a $5,000 deductible that doesn't apply to doctor's visits, for which she pays a $40 to $50 co-pay.

Protect your health. "I have a client who retired a couple of years ago at age 62," says Lori Embrey, principal at Fairfield Investments & Wealth Management in Columbus, Ohio. "She was in very good health so we were able to obtain individual health insurance through Anthem for $200 a month." Good habits and fortunate genes may pay off for your clients. WellPoint (Anthem's parent) and Humana are among the major health insurers that have increased their offerings for pre-Medicare purchasers.

Choose a high deductible. In addition to clean living and good health, Embrey's client kept costs down by choosing a high-deductible plan. "Her deductible is about $2,000, which she can absorb easily," Embrey says. "I was surprised by the low cost of this plan." High-deductible plans make sense for individual purchasers, especially if they have the means to handle a few thousand dollars in medical bills per year. "Taking a low deductible may be an inefficient way to trade dollars with an insurance company," says Steve DeRaleau, chief operating officer of Humana One, based in Louisville, Ky. "Right before retirement, your main goal with health insurance should be to protect yourself from a catastrophic expense."

Better yet, clients can pair a high-deductible plan with a health savings account (HSA), as long as their health insurance policy meets certain requirements, such as a minimum deductible of $1,100 for an individual. An HSA offers upfront deductions, a tax-free investment account and tax-free withdrawals for healthcare. "Even though contributions to an HSA must stop by age 65, it can be beneficial to someone who is, say, 60 or 62," says Ken Eaton, a principal at Stepp & Rothwell, a planning firm in Overland Park, Kan. "The money can continue to grow as long as the client is alive." An HSA owner can pay current medical bills out of pocket and let the HSA grow. Eventually, when the HSA owner is older and healthcare expenses are steep, tax-free withdrawals can pay some of those bills.

Chamberlain points out that some companies may have an easier time underwriting policies that have higher deductibles. Assuming that clients are insurable and financially comfortable, boosting the deductible may be the most cost-effective way to get pre-Medicare health insurance.

Even so, clients may be wary of moving from low-deductible group coverage to high-deductible individual plans. "We give a fairly comprehensive review to clients who would not suffer financial strain if they had a higher deductible," says Mark Farrell, director of advanced planning at McLean, Va.-based Asset Management Corp. "We mention that if they choose the high-deductible route, they will be out of pocket for most basic medical expenses, including doctor visits. Clients who have taken this approach seem to have adjusted well—most see it as a way to lower their premiums and get a small tax deduction."

Jump in the pool. Planners advising pre-Medicare clients can't expect that health insurance will always be readily available. "People in the 55 to 65 age group should not count on getting individual coverage," Sperling says. Yet clients in poor health should not give up. "If clients' health issues prevent them from obtaining individual coverage," Campbell says, "it is important to determine their HIPAA status." Under HIPAA, a federal law, "eligible individuals" have a right to buy certain individual policies or coverage through a state's high-risk pool without exclusions for preexisting conditions.

To be eligible, individuals must meet several requirements. Clients formerly in a group plan who now have no other health insurance options (COBRA, say, or other health insurance) typically will meet the HIPAA standard. Then they can buy into a state's high-risk pool. Campbell estimates that at least 30 states have pools.

"Other states require licensed carriers to offer a specific number of guaranteed-issue policies each year during open enrollment periods," she says. "States usually mandate basic benefits and caps on premiums." Those caps tend to be high, compared with standard health insurance rates, and patients may be responsible for high coinsurance portions, but at least there will be some coverage.

What's more, some states require group plans to offer conversions. "When group coverage ends, a person may have the right to buy an individual policy from the group insurer, on a guaranteed-issue basis," Campbell says. In states without such rules, conversion policies typically have limited benefits and very costly premiums. At www.statehealthfacts.org, planners can find the various state rules on high-risk pools, guaranteed issue and conversion privileges.

Drew Tignanelli, president of The Financial Consulate in Lutherville, Md., mentions another website,www.naschip.org, for learning about

state health insurance guarantees. "For people with health problems," he says, "it is best to retire to a state with a pool. Any Maryland resident can be covered by the state's pool, no matter what, and it is a very good plan for guaranteed issue."

Gardner notes that the qualifications for participating in a high-risk pool differ from state to state, but many require residents to apply first for individual coverage. "If you are offered coverage at a higher rate than is available with the high-risk pool, or if you apply for coverage and are offered a rider (or denied coverage altogether) from a health insurance company, you should qualify for the high-risk pool," he says.

Add Medical Planning to Your Menu

For clients who'll be hunting for pre-Medicare health insurance, financial planners might morph into medical planners. Clients who have high blood pressure, high cholesterol, borderline blood sugar or are overweight, Chamberlain says, should increase their exercise level and lose weight. "The goal," he says, "is to get off medications and be stable for at least one year."

If clients have conditions that could be surgically treated, such as a bunion or hemorrhoids, it's important to have them corrected well before retirement. "Insurance companies want to verify that once it's been fixed, it stays fixed," says Chamberlain. "Insurance companies are very leery of unresolved issues that can cost them money."

One school of thought holds that clients who know they will leave group coverage should use it while it's available. Get the knee replaced or have the colonoscopy before leaving the group. Chamberlain isn't so sure that's the best approach. "Clients should not overuse group coverage in the years leading up to early retirement," he says. "With a group plan that has a low co-pay, people often run to the doctor for rather minor issues. Having a 'big health history' can be a negative when it comes to buying individual coverage." His advice: "Do not run to the doctor for a ton of little stuff, but do get the big stuff done at least one year prior to leaving."

Planners not only can urge clients to shape up, but they can also help to frame applications for individual or family coverage. "When a client has a health history that might cause a higher premium or a decline of coverage, it's advantageous to submit applications to several companies simultaneously," says Chamberlain. "On many applications, there is a question, 'Have you ever been denied coverage?' That could be a red flag on the second or third application. By submitting them all at once, the client can take the best of the offers without being affected by the red flag."

In sickness or in health, then, there are ways to help most clients bridge this dangerous medi-gap. "The real key to this issue," Hathaway says, "is to address it early. Make sure that health insurance is among clients' considerations as soon as they bring up early retirement."