Health care and early retirement:

Covering costs before you're eligible for Medicare

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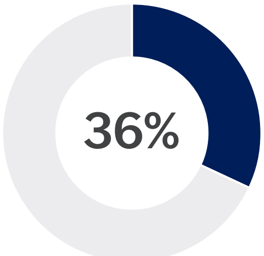
When planning for retirement, you might spend a lot of time thinking about how much to save or when to start taking Social Security. But equally important is having a plan for health insurance. Medicare is typically the answer for people 65 and older. But what happens if you want — or need — to retire before then?

Why it's important to plan for health care if you retire before 65

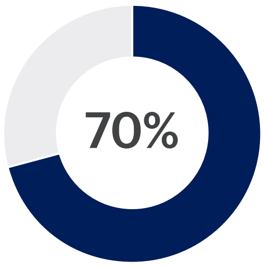
Most people won't be eligible for Medicare before age 65, but many will retire before then

Early retirement can be planned, but it's often unexpected for personal or professional reasons. More than three in 10 pre-retirees say they plan to retire before 65. But many retire sooner than they intended. So, even if you plan on retiring at or after age 65, you'll want to understand your options for health insurance.

Expected vs. actual early retirement



Pre-retirees who *plan* to retire before age 65



Retirees who *actually* retire before age 65

Source: 2024 EBRI Retirement Confidence Survey.

Potential reasons for unexpected early retirement:

- Job loss
- Dissatisfaction with job
- Spouse retires
- Ill health (self or loved one)
- Financial ability to retire earlier than expected

Source: TransAmerica, *How Today's Retirees Are Financially Faring in Retirement,* 2018.

If at all possible, have health insurance

Since most people get their health insurance from their employers, retiring before 65 — whether planned or not — can mean a coverage gap. Finding health insurance during that gap may be expensive, but not having coverage could be even more costly and lead to poor health and well-being.

- Hospitals frequently charge two to four times the amount health insurers/public programs pay for hospital services.[1]
- Uninsured adults are more likely to face negative consequences from medical bills, such as:[1]
  - Depleting their savings
  - Having difficulty paying for necessities
  - Borrowing money
  - Having medical bills sent to collections
- Many uninsured individuals avoid seeking medical care, contributing to overall lower health and well-being.[2]

When you consider all the negative consequences of not having insurance, it's easy to see why it's so important to maintain health insurance and incorporate expected medical costs into your plans for retirement.

Without insurance:

Fixing a broken leg can cost ***as much as $7,500***

A 3-day hospital stay costs ***an average of $30,000***

Comprehensive cancer care can cost ***hundreds of thousands of dollars***

Source: "Why health insurance is important," Centers for Medicare & Medicaid Services (CMS), healthcare.gov.

Options to consider for health insurance coverage

There are four options we recommend exploring for health insurance. They're ordered from what's generally the cheapest to the most expensive options, but not everyone will have access to each option and the coverage and costs will vary.

For example, someone who qualifies for Affordable Care Act (ACA) Marketplace subsidies may find an ACA plan cheaper and/or to have better coverage than what is offered through their former employer's retiree benefits.

	Pros	Cons
Former employer retiree health benefits	• **Generally the most affordable,** especially if your employer continues to help pay the premiums (most do). • **Consistency of coverage:** If it's your current plan, this option allows you to keep existing coverage (with benefits and a provider network you're used to). • **Spousal coverage, if applicable:** Your spouse may also be eligible for coverage.	• **Availability and eligibility:** Fewer and fewer employers offer this benefit, and those that do may have restrictions that make you ineligible (e.g., start date, length of service, position within the company).
Spouse's plan	• **Affordable,** especially if the employer helps pay the premiums. • **Consistency of coverage:** If it's your current plan, allows you to maintain existing coverage (with benefits and a provider network you're used to).	• **Availability:** Dependent on spouse maintaining employer-sponsored plan and employer offering spousal coverage. • **Cost (if employer doesn't subsidize premiums):** Can be more expensive than if you qualify for your own employer's retiree health benefits.
COBRA	• **Consistency of coverage:** Allows you to maintain existing coverage, with benefits and a provider network you're used to. • **May be cost effective in year of retirement:** If you've met (or made progress toward) your deductible, this may be cheaper than other alternatives for the year you lose coverage.	• **Duration:** Only available for a set time after leaving your employer (usually 18 months). • **May be the most expensive option:** You typically have to pay the entire premium (including what your employer covered/subsidized while you were employed) plus up to an additional 2%.
ACA Marketplace plan	• **Broad eligibility:** Almost all retirees can take advantage of this, since it's not employer-dependent. • **Cost if subsidized:** May be competitive with employer-sponsored coverage, especially if the employer isn't paying part of the premiums.	• **Cost if not subsidized:** ACA plans are typically more expensive than employer-sponsored coverage. • **Premiums factor in the age of the insured,** so they tend to become more expensive over time.

Options to consider for health insurance coverage *(continued)*

Less common options

- *Medicaid* – Not typically an option to "plan" for because of income and asset restrictions to qualify.
- *Medicare* – May be an option for certain individuals younger than 65 with a disability, end-stage renal disease or Lou Gehrig's Disease (ALS).
- *Military* – Those who served in the military may be eligible for TRICARE or VA Health Care.

Generally less attractive options

- *Moving abroad* – Other countries may offer health coverage options, but moving isn't desirable for many people.
- *Off-exchange plans (private plans)* – Usually more expensive than an ACA plan.
- *Faith-based health-sharing plans* – Not actually insurance and the plans have limitations, so generally not a desirable alternative to health insurance.

When choosing among options, consider differences in coverage, cost and whether you can contribute to an HSA

While Edward Jones doesn't provide advice as to which health insurance plan is most appropriate, there are a number of considerations you may want to keep in mind as you're weighing your options, including:

- **Coverage**
  - *Provider/facility network* – Most plans have websites you can use to look up whether your desired providers and facilities are in-network.
  - *Prescription coverage for specific medications* – Check the plan's website for medication coverage and pricing details.
  - *Benefits coverage* – Ensure the plan covers any specific type of service you expect to rely on (for example, weight management or mental health needs).
- **Cost**

  It's important to compare the *entire spectrum* of costs for different plans, including:

  - *Premiums* – The minimum you'll pay from premiums.
  - *Deductibles, copays and coinsurance* – These costs help you understand how quickly and how much the insurance will help cover your health care expenses (you may have to cover the deductible out of pocket before the insurance begins covering costs).
  - *Out-of-pocket maximum* – The maximum you're expected to pay out of pocket for covered services.
- **Access to a Health Savings Account (HSA)**
  - There are many benefits to having an HSA, but one of the requirements for contributing to one is being covered by a High Deductible Health Plan (HDHP).
  - If contributing to an HSA is beneficial for you, and especially if you're generally in good health and you don't expect to depend heavily on your health insurance, an HDHP might be a favorable option.

Benefits of an HSA

- Contributions are tax exempt.
- Contributions can be saved and used in future years.
- Earnings grow tax free.
- Distributions used for qualified medical expenses won't increase your taxable income.

Request from your financial advisor our report "Five things to know about HSAs" if you'd like to learn more.

Make health care costs part of your retirement plan

Whether you hope to retire in five years or 15, now is the time to start planning for health insurance. Begin by determining how long you'll need coverage and how much that coverage might cost you.

How long?

If you're planning to retire early, ensure you're accounting for the cost of health care in the years before you're eligible for Medicare (age 65 for most individuals). Your financial advisor can help build health care costs — those before age 65 and Medicare costs once you become eligible — into your plan for retirement.

Even if you're planning on working until at least age 65, you may still want your financial advisor to run scenarios where you retire earlier than expected. The median age for retirement is 62,[3] so planning for at least three years of unexpected health care expenses before Medicare eligibility is a good way to stress test your plan.

How much?

Retiring soon

If you're close to retirement, you may be able to estimate your costs more precisely. You'll want to estimate your premiums and expected out-of-pocket costs.

- *Contact your employer's HR department:* If you're employed, ask your HR department for information about retiree benefits and COBRA coverage.
- *Contact your spouse's HR department:* If you're married or have a partner, look into benefits that may be available from their employer.
- *Check into ACA Marketplace plans:* You can get a personalized estimate of available ACA Marketplace plans by visiting healthcare.gov.

Retiring years from now

If you're further away from retirement, you may just want to use estimates. Be sure to adjust for inflation. We generally recommend assuming that health care costs increase by 3%–5% each year.

- **Employer coverage —** If you expect to continue employer coverage, start with an estimate of $10,800 for a single plan (2024 — accounts for premiums plus a deductible).[4]
- **ACA Marketplace coverage —** If you think you may need to rely on an ACA Marketplace plan, the cost will depend on a variety of factors including your location, age, smoking status and income. Below are national estimates of single, annual premiums plus a deductible for 2024. (Assumes the person is a non-smoker whose income is high enough they don't qualify for any subsidies.)[5] If your income qualifies you for premium and/or cost-sharing subsidies, the cost could be significantly lower.

Age	55	60	64
Silver Plan	$14,700	$16,900	$18,100
Bronze Plan	$12,900	$14,600	$15,500

Incorporating these costs will help ensure you can keep health insurance and afford necessary health care in your early retirement years.

Having a plan means staying in control

Retirement is the opportunity to live your life on your own terms. Living your healthiest life possible — without worrying about debilitating medical bills — should be part of the plan. Health care may be among the highest expenses in retirement, but by accounting for it and planning for the unexpected, you can help ensure you enjoy those years to the fullest.

Sources

1 Kaiser Family Foundation, *The Uninsured and the ACA,* 2019.

2 Institute of Medicine (US) Committee on the Consequences of Uninsurance. *Hidden Costs, Values Lost: Uninsurance in America.* Washington (DC): National Academies Press (US); 2003.

3 2024 EBRI Retirement Confidence Survey.

4 Kaiser Family Foundation 2024 Employer Health Benefits Survey: Average premium of around $9,000 (assuming no employer subsidy) and average deductible of around $1,800 for a single plan. Values rounded to the nearest $100.

5 Premiums calculated from KFF Health Insurance Marketplace Calculator based on national 2024 averages for unsubsidized single coverage of an adult who doesn't use tobacco (Silver Plan premiums of around $10,000, $12,200 and $13,400 for ages 55, 60, and 64, respectively; Bronze plan premiums of around $7,600, $9,300 and $10,200 for ages 55, 60, and 64, respectively). The deductibles included are $4,700 for a Silver plan and $5,300 for a Bronze plan based on 2024 averages from the CMS 2024 Open Enrollment Report. Values rounded to the nearest $100.