# Money and You: The health insurance dilemma - choices for retirees under 65

*by Carrie_Schwab_Pomerantz*

If you're fortunate enough to think about retiring early, you've obviously been doing some smart financial planning. But in spite of all the calculating you've done to prepare for this next phase in your life, there's one area where you might want to take a second look at the numbers - health insurance.

Take the situation of a colleague of mine. With a husband at full retirement age and eligible for Medicare, she decided to take early retirement so the two of them could travel. Being healthy, she felt comfortable with a high-deductible health insurance plan. But as she tells me now, she had no idea how quickly all the expenses could add up. Now she and her husband are paying more for health care than for their trips.

The potentially high expenses don't mean you have to change your plans; however, you need to take a realistic look at the cost of health care and factor it into your overall retirement budget.

Here are some eye-opening facts and important considerations:

According to a Harvard study, in 2001 medical bills were the No. 1 cause of personal bankruptcy in America. The AARP Public Policy Institute states that in 2005 more than 7 million Americans from age 50-64 were without health insurance. A recent Fidelity Investments analysis suggests that an average couple starting retirement today at age 65 and on Medicare will need $215,000 to pay for health care costs. Add the fact that the cost of health care has outpaced inflation for the past 15 years, and you can see why adequate health insurance is a crucial part of your retirement plan.

CONSIDER YOUR OPTIONS

So how can you make sure you're covered? You actually have a number of options.Evaluate your current coverage. If your employer offers retiree medical benefits until age 65 when you qualify for Medicare, you're one of the lucky ones. This type of continued coverage is becoming less common as employers' insurance costs rise, but it's definitely worth checking out. Your premium and co-payment may be more than you're paying now, but would be less than an individual policy.

Take advantage of COBRA. You may be able to continue insurance under your employer's plan for 18 months after you retire. This short-term solution will cost more since you'll have to cover the entire premium, but it's ordinarily less expensive than an individual plan. Plus, it gives you some time to look at other alternatives.

Explore other group policies. If you're part of a professional, educational or religious organization, you may be able to purchase health insurance through that group at a lower cost. You could even decide to go back to school on a part-time basis and perhaps qualify for student health insurance.

Shop for an individual policy. For those between the ages of 50 and 64, an individual policy can be tricky, so it pays to shop around. It's a given that your most affordable choices will carry a high deductible, plus your medical history will be a factor in qualifying. While you may be generally healthy, I don't know anyone over 50 who hasn't had some past health issue that an insurance company could flag.

But it's not all gloomy. Seeing an opportunity, several health insurance companies like Humana, Aetna and Kaiser have recently introduced policies tailored specifically to this age group. To get an idea of what's available, an online resource like eHealthInsurance.com can be a good place to start, but it may make the most sense to work with an insurance broker.

See if your state has a high-risk pool. As a last resort, you may be able to get coverage through a state-run high-risk pool. This option is available to residents with pre-existing conditions who can't get an individual policy. Premiums are usually high and policies vary by state. The State Department of Insurance for your state can provide more information.

ASK SOME KEY QUESTIONS

When you get down to actually buying a policy, decide first and foremost how much you can afford to pay in premiums each month. Then, as you compare policies, be sure to ask these questions:

- What services are covered?

- How much is the deductible?

- What are the co-payments?

- What is the out-of-pocket maximum?

- Are pre-existing conditions covered?

While these questions may seem basic, asking them upfront could save you money and aggravation down the road.

## LOOK INTO A HEALTH SAVINGS ACCOUNT

If you do end up with a high-deductible individual policy, a Health Savings Account (HSA) can help take some of the sting out of the medical costs you end up paying. An HSA is a tax-advantaged savings account that allows you to pay for qualified medical expenses with pretax dollars (you may want to consult with a tax professional to see how this would impact you). Similar to an IRA, you get a tax-deduction for the money you deposit each year, and the earnings can grow tax-free. You can easily make withdrawals from your HSA at any time with no penalty or taxes for qualified medical expenses. Any funds not used each year continue to accumulate in the account until needed.

## TAKE CARE OF YOURSELF

Short of legislation for universal health care, rising costs are going to affect all of us in some way. The most important thing you can do right now is obtain the facts and make sure you're covered before you retire. And then, of course, stay healthy. Exercise, eat properly, don't smoke, and take advantage of preventive care. It will improve your mental and physical health, as well as protect your financial health, so you can enjoy your early retirement and all the full years ahead.

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