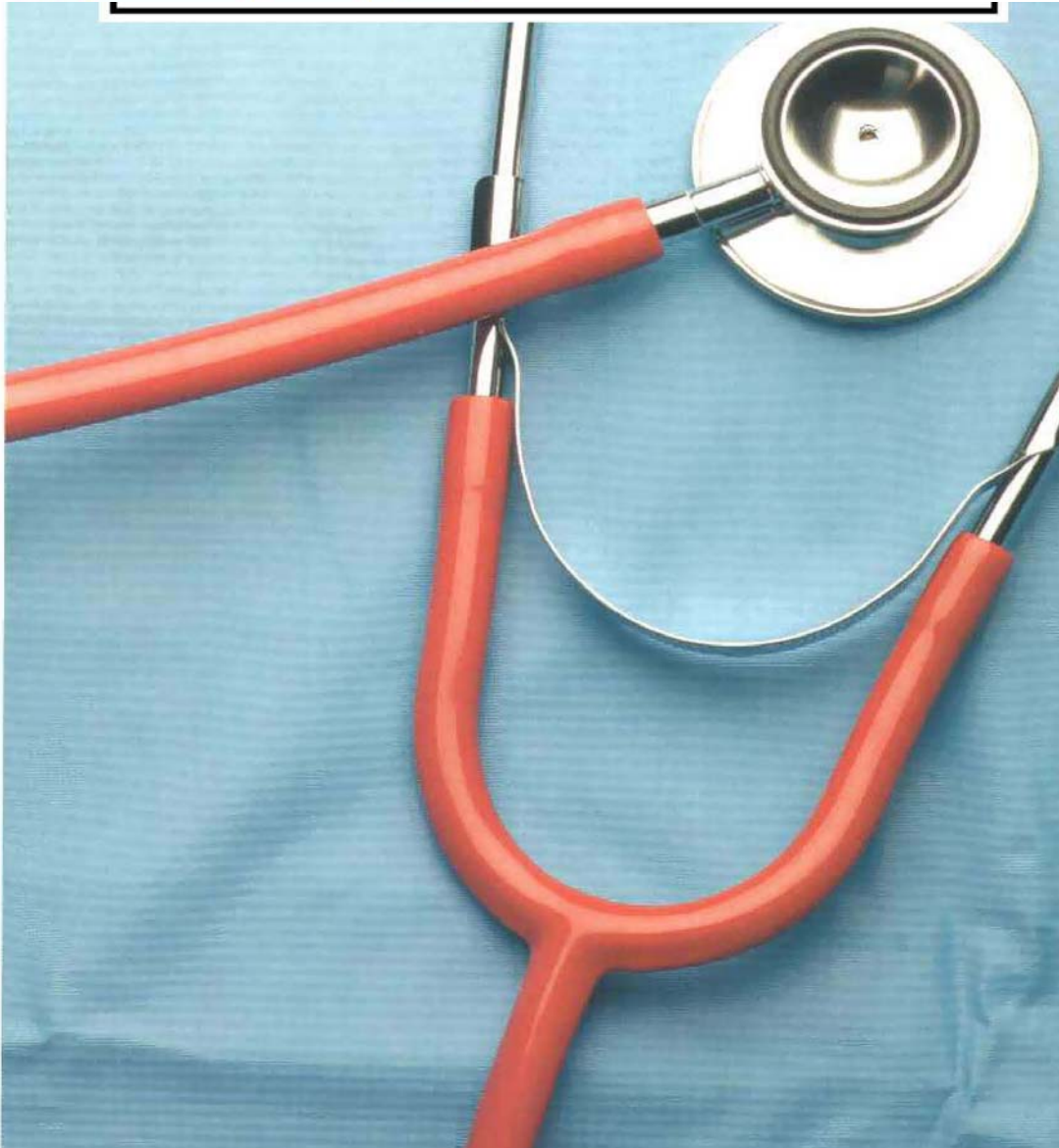


Kiplinger's PERSONAL FINANCE

**RETIREMENT
PLANNING
2009**



IT'S BAD ENOUGH THAT YOUR RETIREMENT

savings are evaporating. But if you lost your job, retired early or are trying your hand at self-employment, you'll need to budget for health coverage. And the tab could be steep. Even retirees whose former employers continue to offer coverage until Medicare kicks in at 65 may encounter sticker shock. As health-care costs continue to rise, many employers are reducing or eliminating medical coverage or requiring retirees to pay a larger share. Consulting group Towers Perrin says pre-Medicare-age retirees will pay about 52% of the average per-person premium this year,

Despite the cutbacks, retirees with limited health benefits are the lucky ones. Most retirees no longer receive *any* benefits from their former employers. Today, only 31% of large firms that offer health benefits to their employees also offer retiree coverage, down from 66% in 1988, according to the Kaiser Family Foundation.

The shifting burden from employer to retiree is nowhere more evident than in the auto industry. In 2007, Ford, Chrysler and General Motors transferred billions of dollars into health-care trusts for the United Auto Work-

In search of health insurance

Where to find coverage when you're out of work but too young for Medicare. By Susan Garland

boosting their share to nearly \$7,000 per person. That's up substantially from the average \$4,200 a year they paid in 2004, which represented about 40% of total employer-provided health-care costs at the time. And in five more years, Towers Perrin predicts early retirees will pick up 80% of the ever-increasing health-care costs.

SHARED BURDEN

MANY EMPLOYERS ARE TRYING TO LIMIT THEIR

costs by giving each early retiree a fixed contribution to pay for medical care, says Ed Pudlowski, of Ernst & Young, a business-consulting firm. The money goes into a special account, which is used to reimburse retirees for out-of-pocket medical bills. Increasingly, Pudlowski says, employers are also making contributions to an early retiree's health savings account. The retiree buys an HSA-qualified, high-deductible policy, and can use the money tax-free to cover medical expenses (see the box on page 78).

ers to manage. Earlier this year, the union agreed to allow cash-starved Ford to fund part of the trust with stock—a shaky proposition if share prices continue to decline. Meanwhile, a federal bankruptcy court allowed auto-parts maker Delphi to terminate health benefits for thousands of retirees.

Don't think you're immune from rising benefit costs just because you're a state or local government retiree. Over the next five years, more than half of the states surveyed by the Center for State and Local Government Excellence, in Washington, D.C., say that retirees will likely pay more in premiums, deductibles and co-payments.

LIFE AFTER WORK

IF YOU'VE LEFT-OR LOST-YOUR JOB, YOU MAY

be able to continue receiving health-insurance coverage under your former employer's plan. But it will cost you. The COBRA law requires companies with 20 or more employees

TIP // TO get info about COBRA, go to the Cobra Learning Center at www.ehealthinsurance.com. The Web Site has a calculator that compares your subsidized premium with health plans in your zip code.

to allow former workers to buy benefits for up to 18 months. Many states require smaller employers to offer continuation coverage under so-called mini-COBRA laws. But COBRA can be costly because the employer no longer subsidizes the premium. The average annual tab in 2007 under COBRA was more than \$4,700 for individual coverage and nearly \$12,700 for family coverage, according to Kaiser.

The new economic-stimulus package will offer some relief, providing a 65% COBRA subsidy for up to nine months. The subsidy applies to workers who were laid off between September 1, 2008, and December 31, 2009. To qualify, your income must be less than \$125,000 for individuals and less than \$250,000 for families.

EXTENDED BENEFITS

ONCE YOUR COBRA BENEFITS EXPIRE, additional help is available, but you have to act quickly. Under the federal Health Insurance Portability and Accountability

Act (HIPAA), private insurers must provide you with some type of continuation coverage after your company benefits expire, even if you have a costly medical condition. But if you wait longer than 63 days and have a preexisting condition, you may not be able to find coverage at all. The law does not cap premiums, however, and each state has its own HIPAA rules. Contact your state insurance department for details.

"HIPAA is like a secret," says Larry Harrison, an insurance agent in Las Vegas, Nev. "Someone will lose a job, run out of COBRA benefits and then start shopping for Insurance months later. By then, the window is closed."

A HIPAA plan was a godsend for Alix Vandivier, 53, a retired college administrator in Las Vegas. Two years ago, Vandivier was diagnosed with multiple myeloma, a type of cancer, and eventually left her job. Six months before her COBRA benefits expired, she began looking for individual insurance. Four companies turned her down. She didn't learn about HIPAA until she called the state government, which referred her to Harrison.

Harrison found Vandivier a Blue Cross policy that costs \$800 a month. As a person with a disability, she'll become eligible for Medicare after six months. "Eight hundred dollars is a lot better than the \$15,000 I would have had to pay for chemotherapy," she says.

»HSAs

Atriple tax break on health savings

You can use tax-deductible health savings accounts to pay for out-of-pocket medical costs now, or stockpile the money to build up a nest egg specifically for health-care costs in retirement. HSA contributions get a triple tax break: First, you reduce your current income taxes by setting aside pretax dollars in the account. Second, money in an HSA grows tax free. Finally, HSA withdrawals are tax-free as long as you use the money for medical expenses.

To open an HSA, you must have a health plan with a deductible of at least \$1,150

for single coverage and \$2,300 for family coverage in 2009, meaning you'll have to spend that much out of pocket before insurance pays for anything beyond basic preventive care. In return, individuals can contribute as much as \$3,000 (\$5,950 for families). Those 55 and older can make a \$1,000 catchup contribution; if both spouses want to make catch-up contributions, they need to open separate accounts.

An HSA is an even better deal than the more familiar flexible spending account because there is no use

it-or-lose-it rule. You can rollover the money from year to year. Once you turn 65, you can no longer contribute to an HSA, but you can spend the money on anything, making it an ideal supplemental retirement account. You'll still owe income taxes on nonmedical distributions, but you'll avoid the 10% penalty that applies to younger HSA owners.

For more information on HSAs, go to www.ustreas.gov (click on "Health Savings Accounts"). To see how much you can accumulate by age 65, go to www.hsainsights.com/HSACal.aspx

HEALTHY OPTIONS

COBRA AND HIPAA BENEFITS MAY BE THE BEST options for someone with a serious medical condition. But a person who is relatively healthy is likely to find a cheaper policy in the individual market. "You can search for a plan with just the benefits you need," says Sam Gibbs, senior vice-president of eHealthInsurance, based in Mountain View, Cal.

For instance, Gibbs says, if both spouses are covered by the same employer plan, consider COBRA only for the sicker spouse. The healthier spouse can shop for an individual policy. Individuals who are within a few months of Medicare eligibility or between jobs can sign up for a short-term policy, which is usually bare-bones coverage that lasts for six months, says Gibbs. And if a policy won't cover a preexisting condition, such as heart disease, look for a limited-benefit policy to fill the gap

Take a look at www.ehealthinsurance.com to compare policies. To save time use a broker; you can find one at the National Association of Health Underwriters (www.nahu.org). Several insurers, such as Humana, WellPoint and Assurant, are targeting the early-retiree market. In January 2008, AARP Services rolled out a variety of Aetna plans aimed at individuals 50 and older. David Mathis, senior vice-president for AARP's health products and services, says these policies tend to be "more flexible" in accepting applicants with preexisting conditions, such as hypertension, high cholesterol and weight issues, than those typically offered by insurers. Before choosing a policy, Mathis says, individuals should conduct a "needs analysis," figuring out their health-care spending over the past couple of years, the number of doctors they see and the types of drugs they take

WAITING FOR MEDICARE

SCOTT KRIENKE, SENIOR VICE-PRESIDENT OF product lines at Assurant, says HSAs are popular among early retirees who are trying to bridge the gap until Medicare kicks in. "When new retirees try to re-create their employer plans, they realize how expensive they are," Krienke says. "With a high-deductible plan, the premium goes down significantly and you can pay for services with tax-effective dollars." He estimates that the savings in premiums and taxes will fund at least eight months of out-of-pocket costs.

Patricia and Richard Jacoby decided to go with an HSA after their COBRA premiums soared. The couple lived in Lake Mary, Fla., and moved to their second home in Port Charlotte in December 2007, six months after Richard, now 62, lost his manager's job. Patricia, 55, who was a corporate accounting manager, hoped to find a new job with employer based health coverage. No luck.

After their COBRA premiums shot up to \$800 a month, Patricia says they looked in the individual market. They found a Humana One HSA-compatible policy, which costs about half as much. Once they reach their \$10,400 deductible, they will have no out-of-pocket costs. The two are healthy and don't expect to reach the deductible. "We're covered if something major were to happen,"

Jacobys were able to find insurance at reasonable rates. But not all pre-Medicare applicants are so lucky. Many are denied health-care coverage at higher rates than younger applicants. More than 28% of those 60 to 64 and more than 22% of those 55 to 59 were denied coverage in 2006, compared with a 13% denial rate for those in their late forties, according to the AHIP Center for Policy and Research in Washington, D.C.

If you're rejected by a commercial insurer, you might be able to get coverage from a state-run, high-risk pool. Thirty-four states provide coverage to individuals who are otherwise uninsurable, according to the National Association of State Comprehensive Health Insurance Plans. Benefits vary by state, but coverage is usually comparable to basic private market plans. You can find links to your state high-risk pool at www.naschip.org. Generally, there are no exclusions, but high-risk pools do have waiting periods for coverage of preexisting conditions. And, says Karyn Schwartz, senior policy analyst for the Kaiser Family Foundation, "beneficiaries pay a premium that is relatively high compared with other plans." Premiums are capped at about 150% of the average comparable private coverage. For some, the price is simply too high. In 2007, 12% of persons 55 to 64 did not have insurance, according to Kaiser. K

»BUDGETING

You can trim your health-care expenses

There are numerous ways to reduce healthcare spending if you can't get insurance or if you want to reduce out-of-pocket costs. Many hospitals and doctors will negotiate bills. And make sure you compare prices for services, such as MRIs, at hospitals and imaging clinics.

If you have a routine ailment, consider going to a retail health clinic at a pharmacy or supermarket. For exam-

ple, MinuteClinic, a subsidiary of CVS Caremark, has 500 locations in 25 states. The walk-in clinic will treat a sinus infection for \$62 and administer a flu shot for \$30.

You can save money on drugs by comparison shopping and switching to generics. If a generic isn't available, ask your doctor for a generic drug in the same therapeutic class. At Destination

Tip// If you need to find insurance on your own, you have a number of options. Start your search by visiting the Web site of the Foundation for Health Care Coverage Education (www.coverageforall.org). The site provides a detailed 44 matrix of each state's private and public health programs. You can call for help at 800-234-1317.

Rx's Web site (www.drug.com), you can compare prices for similar drugs at pharmacies in your area.

Review your hospital bills carefully. If you have a high-deductible plan, make sure the hospital is charging the rate that the hospital negotiated with its insurer. Verify that all of your eligible out-of-pocket payments are credited toward your deductible.