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Find Health Coverage Before Medicare

You do have options if you need to find insurance on your own.

By Susan B. Garland

It's bad enough that your retirement savings are evaporating. But if you lost your job, retired early, or are turning to self-employment, you'll need to budget for health coverage. And the tab could be hefty.

Even retirees whose former employers continue to offer coverage until **Medicare** kicks in at age 65 can expect a bit of sticker shock. As health-care costs continue to rise, companies are reducing coverage or requiring retirees to pay more.

Many employers are limiting costs by giving each retiree a fixed contribution to pay for medical care, says Ed Pudlowski, a principal with Ernst and Young.

"The employer will tie the payment to age and service -- if you retire at age 55 after 10 years you get X number of dollars," Pudlowski says. The money goes into a special account, which is used to reimburse retirees for out-of-pocket medical expenses.

These retirees are the lucky ones. Most retirees don't get any benefits from their former employers. Only 31 percent of large firms that offer health benefits to their employees also offer retiree coverage, down from 66 percent in 1988, according to the Kaiser Family Foundation.

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

If your former employer provided benefits, you may be eligible to continue coverage under a federal law called COBRA. The law requires companies with 20 or more employees to allow former workers to buy benefits for up to 18 months. Many states require smaller employers to offer continuation coverage under "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 $4,704 for individual coverage and $12,680 for family coverage, according to Kaiser.

The economic-stimulus law offers some relief, providing a 65 percent COBRA subsidy for up to nine months. The federal subsidy applies to workers who were involuntarily terminated between Sept. 1, 2008, and Dec. 31, 2009. To qualify, your income must be less than $125,000 for individuals and $250,000 for families.

Once your COBRA benefits expire, don't wait more than 63 days to sign up for a policy in the individual market. Under the federal Health Insurance Portability and Accountability Act (HIPAA), private insurers must offer some type of coverage after your company benefits expire, even if you have a medical condition. The law does not cap premiums, however. Each state has its own rules, so contact your state insurance department.

If you wait longer than 63 days and have a medical condition, you may not be able to find coverage at all. "Someone will lose a job, run out of COBRA benefits and start shopping for insurance months later," says Larry Harrison, an insurance agent in Las Vegas. "By then, the window is closed."

HIPAA was a godsend for Alix Vandivier, 53, a retired college administrator in Las Vegas. Two years ago, she was diagnosed with multiple myeloma and eventually left her job. Six months before her COBRA benefits expired, Vandivier began looking for insurance. Four companies turned her down. She learned about HIPAA when she called the state government, which referred her to Harrison.

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

COBRA and HIPAA benefits are the best options for someone with a serious medical condition. But a relatively healthy person could find a cheaper policy in the individual market. "Corporate health insurance offers one-size-fits-all benefits," says Sam Gibbs, senior vice-president of eHealthInsurance, based in **Mountain View**, California. "You can search for a plan with just the benefits you need."

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 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.

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 are targeting the early-retiree market. In January 2008, AARP 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 the Aetna policies tend to be "more flexible" in covering applicants with preexisting conditions, such as hypertension and high cholesterol, than typical products.

The costs and benefits among policies can vary widely. For instance, a 60-year-old man in Phoenix would pay $440 a month for an Aetna Premier plan with a $1,500 deductible. After reaching the deductible, he would have 20 percent co-payments.

A 60-year-old man buying an Aetna plan compatible with a health savings account with a $5,000 deductible would pay $274 a month. Once he meets his deductible, he would not have any co-payments.

CONSIDER A HEALTH SAVINGS ACCOUNT

Despite the high deductible, the 0 percent co-payments could make an HSA-compatible policy an attractive choice whether your health bills are high or not. Scott Krienke, senior vice-president of product lines at Assurant, says HSAs are popular among early retirees who are bridging the gap until Medicare kicks in.

"When new retirees try to recreate 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-efficient dollars."

With an HSA, you make tax-deductible contributions to the account held at a bank or insurance company. For 2009, the contribution limit was $3,000 for an individual and $5,950 for a family. Those 55 and older can make a $1,000 catch-up contribution. You can't contribute to an HSA once you're eligible for Medicare at 65.

You will need to buy an HSA-qualified policy, which has a minimum deductible of $1,150 for single coverage and $2,300 for family coverage. You can use the HSA money tax-free for medical expenses in any year. After age 65, you can use the leftover HSA money for any kind of expense.

Patricia and Richard Jacoby decided to go with an HSA after their COBRA premiums soared. The couple moved to their second home in Port Charlotte, Florida, in December 2007, six months after Richard, now 62, lost his job in management. Patricia, 55, who was a corporate accounting manager, thought she could easily find a new job with health coverage. No luck.

When their monthly COBRA premiums rose to $800, the Jacobys went to eHealthInsurance. The couple found a HumanaOne HSA-compatible policy, which costs $403 a month. 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," Patricia says. For more information on HSAs, go to www.ustreas.gov (click "Health Savings Accounts").

Because they are in good health, Patricia and Richard Jacoby could find insurance at reasonable rates. Not surprisingly, pre-Medicare applicants are more likely to be denied individual coverage than younger applicants. More than 28 percent of those age 60 to 64 were denied coverage in 2006, compared with 13.4 percent denial for those in their late 40s, according to the AHIP Center for Policy and Research, in Washington, D.C.

If an insurer rejects you, you might be able to get coverage from a state 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. You can find links to your state high-risk pool at www.naschip.org.

Generally, there are no exclusions, but premiums are relatively high compared with other plans. They're capped at about 150 percent of the average comparable private coverage.

If a state has no risk pool or an individual can't afford the premium, you may be out of luck. Karyn Schwartz, senior policy analyst for the Kaiser Family Foundation, says, "Those are the people who become uninsured."