Medicare and the Affordable Care Act

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By Elaine Floyd, CFP®

To Medicare or the Affordable Care Act? That is a complicated question for clients in their 60s—especially if they are still working or thinking about early retirement. A good cost-benefit analysis can help them make the appropriate decision.

How is Medicare affected by the Patient Protection and Affordable Care Act (PPACA)? Let's consider this question from three points of view: 1) People over 65 who are already on Medicare; 2) People over 65 who are still working and not on Medicare; 3) People who plan to retire before age 65.

People over 65 who are already on Medicare

If you are on Medicare, you do not need to concern yourself with the new health care law or the health care marketplace. In fact, the Obama Administration has been telling Medicare beneficiaries to stay away—don't call and don't sign up: "We want to reassure Medicare beneficiaries that they are already covered, their benefits are not changing and the marketplace doesn't require them to do anything," said Michele Patrick, Medicare's deputy director for communications. To reinforce the message, she said the 2016 "Medicare & You" handbook—the 100-plus-page guide that goes out to 52 million Medicare beneficiaries—contains a prominent notice: "The Health Insurance Marketplace is a way for people to get health care coverage. Medicare isn't part of the Marketplace. The Marketplace doesn't affect your Medicare choices or benefits."

One facet of the health care law that does affect Medicare has already been implemented. If you are on Medicare and wondering how you will be affected by the Affordable Care Act, just remember that you are already well covered by health insurance and may now take advantage of free screenings and free flu shots.

If you are on Medicare and have retiree coverage as supplemental insurance, you should be alert to communications from your former employer or the health plan itself. A recent Aon Hewitt survey found that more than 60% of employers are reassessing their long-term retiree health strategies in light of the new health care law and are directing retirees to the individual market for coverage. People who lose their employer sponsored retiree coverage will need to go into the individual market and choose a Medigap policy and standalone drug plan or a Medicare Advantage plan, the same as clients who retire without retiree coverage. Employers who yank their retiree coverage may subsidize part of the cost of the individual plans, but it will be up to you to shop for such plans.

Reminder: the annual open enrollment period for Medicare Advantage plans and drug plans runs from October 15 through December 7. This is when most Medicare beneficiaries review their coverage and consider making changes for the coming year.

People over 65 who are still working and not on Medicare

As long as you (or your spouse) are still working and covered by an employer group health plan, Medicare enrollment may be deferred past age 65. If the employer plan covers 20 or more employees, it must, by law, provide equal coverage to those over 65 as it does to those under 65—that is, it cannot require enrollment in Medicare or subsidize the cost of Medicare. However, any person over 65 may enroll in Medicare, and if your employer coverage is not as good as Medicare's (including Part D and supplemental insurance), from a cost/benefit standpoint, you may want to opt out of the employer plan and enroll in Medicare. More and more employers are imposing hefty cost-sharing arrangements on employees, so some people may do better in the individual market, enrolling in Medicare Parts A, B, and D, purchasing their own Medigap policy and standalone drug plan or Medicare Advantage plan.

Plans that cover fewer than 20 employees are not obligated to pay primary to Medicare, but many do. If you are in a plan that volunteers to pay claims in the absence of Medicare for people over 65, you may want to stick with that plan—or you may not. Again, it comes down to benefits and costs compared to what you can get with Medicare and supplemental insurance offered in the individual market.

You may be able to do better, depending on the extent to which the employer subsidizes the insurance and whether or not you will be subject to the income related monthly adjustment, which can boost your monthly Part B premium from $121.80 to as much as $389.80 plus another $72.90 for Part D. There is simply no substitute for laying out all the costs and assessing benefits and risks. You may have to compare apples and oranges.

For example, Medicare combined with comprehensive supplemental insurance may cost more in premiums, but out-of-pocket costs (except for vision, dental, etc.) will be low. An employer plan, on the other hand, may have lower premiums but a high deductible or high copayments which can drive up out-of-pocket costs if you get sick.

Just as employers are rethinking their policies on retiree coverage as noted in the Aon Hewitt survey, they also are rethinking their entire approach to employee health insurance.

For example, UPS no longer provides coverage to working spouses, citing the fact that they should now be able to get health insurance through their own employers (nonworking spouses will still be covered). A survey by Towers Watson found that 18% of employers required spouses to buy insurance from their own employer starting in 2013.

All employed people need to carefully evaluate their group health insurance options as soon as the information becomes available to them and, if they are over 65, consider Medicare and good supplemental insurance as one of their options.

Even if you are keeping your employer group coverage after age 65, it is often a good idea to enroll in Medicare Part A. Part A is free and provides good hospitalization benefits. (The only time Part A enrollment would not be advisable is if the employer is making contributions to a health savings account: upon enrollment in Medicare such contributions must stop.) Also note that Part A is mandatory if you have filed for Social Security—even if benefits have been suspended.

People who plan to retire before age 65

People who plan to retire before age 65 are the biggest beneficiaries of the Affordable Care Act. Now they will be able to get reasonably priced individual insurance through the health insurance marketplace. Indeed, the availability of health insurance will now create new options for people who have wanted to retire but felt chained to their jobs in order to have health insurance.

If you will be taking the availability of health insurance as your cue to exit the work force, you should know that there are many considerations involved in that decision – not the least of which is how you will support yourself over what could be a 20- or 30-year retirement. See your financial advisor for an analysis of your options.

As for health insurance, if you are transitioning from employer to individual coverage, you can find what you need at the health insurance marketplace. For 2016, the marketplace is open from November 1, 2015-January 31, 2016. The marketplace is run by either the state or the federal government (depending on the state), but all insurance is offered through private companies. There are four levels of plans – bronze, silver, gold, and platinum – offering varying levels of coverage. All plans will offer certain essential benefits and all patients will be accepted, regardless of health status.

The Affordable Care Act provides an opportunity for all people to review their health insurance options and perhaps even consider a broader course of action now that insurance is not necessarily tied to employment. The ones who will be least affected by the new health law are Medicare beneficiaries. They have some of the best insurance around.

As director of retirement and life planning for Horsesmouth, Elaine Floyd helps advisors better serve their clients by understanding the practical and technical aspects of retirement income planning. A former wirehouse broker, she earned her CFP designation in 1986.