

BRIDGING THE GAP TO MEDICARE

How early retirees
plan for, obtain,
and pay for health
insurance until they
reach age 65.



THE STUDY

OBJECTIVES

In November 2017, Fidelity fielded a blind online survey with the goal of answering several questions about individuals who retire before the age of 65 and Medicare eligibility. We wanted to determine if early retirees:

- have a good plan and adequate finances to cover health care expenditures.
- are able to make confident and educated decisions on where and how to purchase health insurance coverage.
- are getting health insurance coverage and if so, what type, and how much they are paying for it.
- know how much health care will cost them during retirement and whether it will affect their standard of living.

KEY FINDINGS

THE DECISION

More than half of those who retired before age 65 stopped working earlier than planned; many because of a health issue or a work event.



THE CALCULATION

Of those who planned to retire early, 58% said access to health care coverage played an important role in their decision, and 75% said they calculated their expected costs.



THE COVERAGE



60% of early retirees get health insurance coverage through an employer-sponsored plan or COBRA.

THE COST

Most pay less than \$500/month for coverage.



THE MISCALCULATION

Nearly 80% of early retirees underestimate how much they are likely to spend on health care during retirement. Many have no idea how to estimate the cost.



THE DECISION

More than half of those who retired before age 65 stopped working earlier than they intended; many because of a health issue or a work event. This lack of control gave them less time to plan for health care coverage and costs; 30% said they didn't begin to think about retirement health care coverage until after they stopped working.

Of those who retired when planned, only 4% said the same.

WHEN DID THEY RETIRE?



Earlier than planned

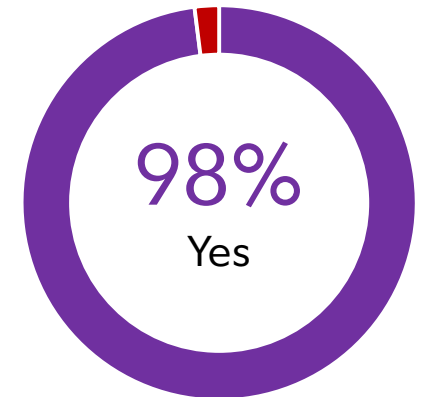
- 30% due to a health event affecting them or their spouse.
- 28% because of something happening at work.
- 49% did not take the opportunity to calculate expected retirement health care costs.

When planned

- 58% said having access to health insurance was a major factor in their decision to retire early.
- 75% calculated what their health care costs would be in retirement.
- 41% began thinking about health care coverage in retirement five or more years before they stopped working.

4%
Later than
planned

INSURED?



Among the 2% uninsured:

- 80% report the cost of insurance is the primary reason.
- Only 28% plan to purchase coverage before Medicare eligibility.



THE COVERAGE

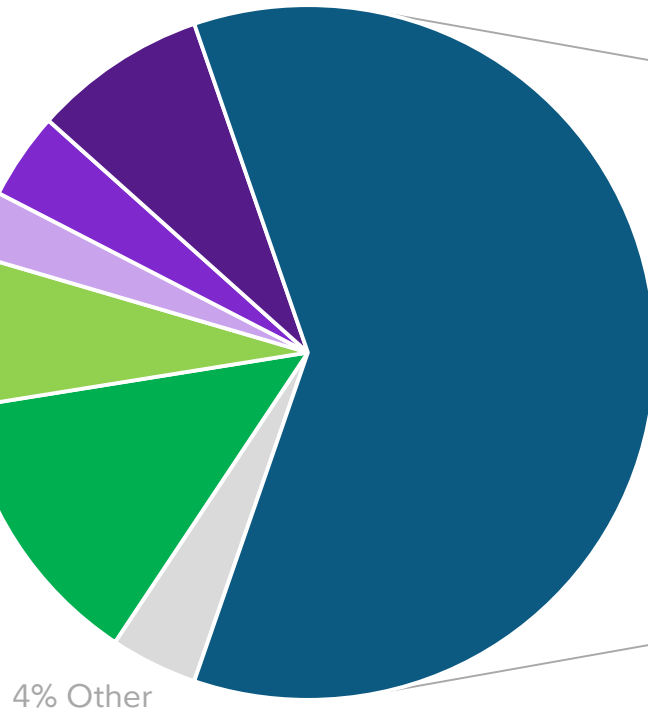
Most early retirees still get health insurance coverage through an employer-sponsored plan.

PUBLIC (15%)

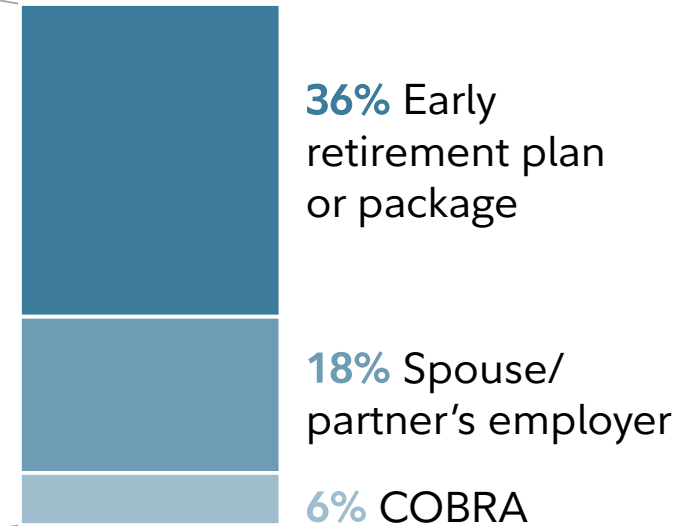
- 8% Medicare disabled
- 4% Military/VA
- 3% Medicaid

PRIVATE (20%)

- 7% Direct through insurance carrier
- 13% Healthcare exchange



EMPLOYER-SPONSORED (60%)



Of the 13% who purchased insurance on a public exchange, 69% received a federal or state subsidy toward coverage costs.

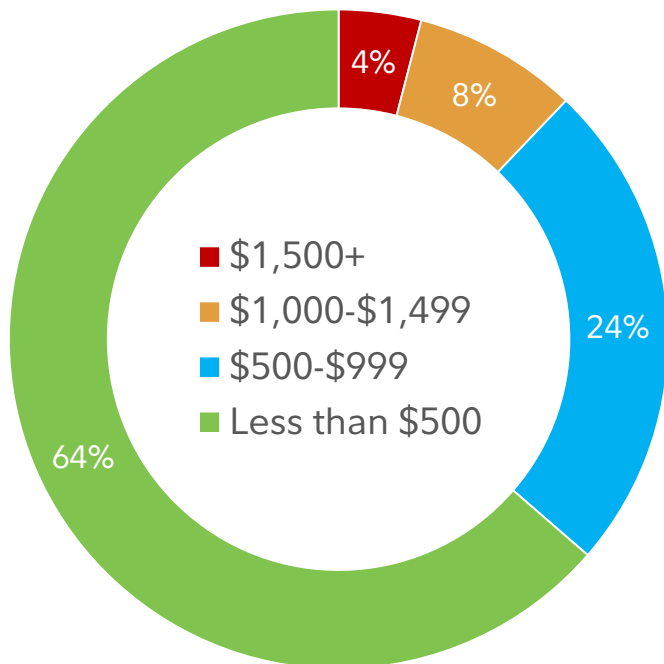
Of the 54% who get non-COBRA coverage through an employer, 57% say the employer pays partial and 19% say the employer pays 100% of the premium cost.



THE COST

Two-thirds report their monthly premium expenses are less than \$500, reflecting the high percentage of early retirees who are subsidized by a former employer or the government. In addition, most pay less than \$500 per month in out-of-pocket expenses like copays, deductibles, and coinsurance.

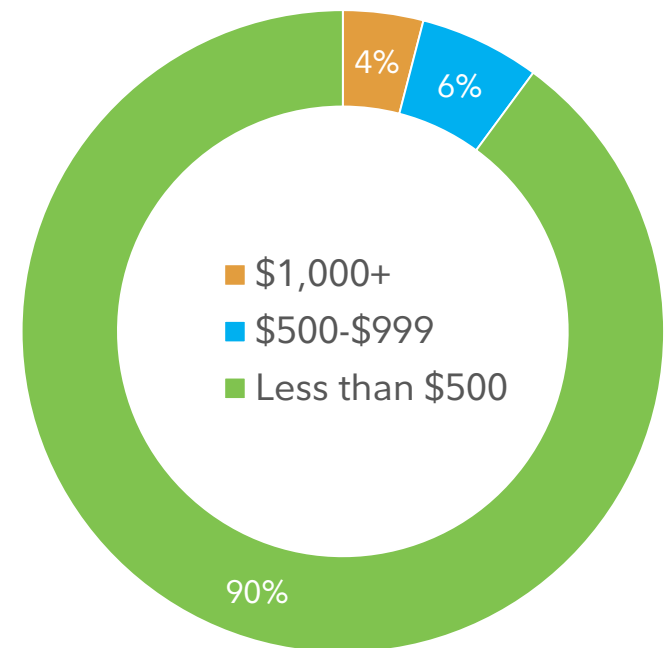
MONTHLY PREMIUM COST



Who pays more than \$500/month in premiums? Largely those who have unsubsidized coverage, including:

- 71% of those on COBRA.
- 62% of those who buy direct through an insurance carrier.

OUT-OF-POCKET COSTS



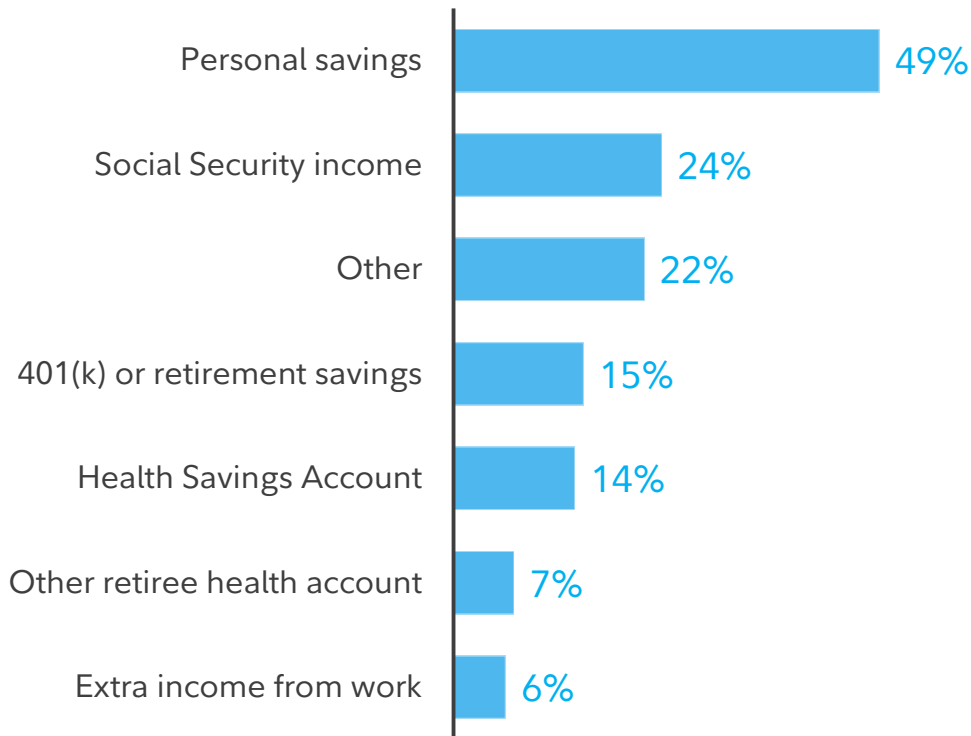


THE COST

The personal cost of health care impacts the standard of living for many early retirees. Today's workers have an advantage over recent retirees in that they are more likely to have access to a health savings account (HSA), which allows them to trim their tax bill today while they save and invest for health care costs in retirement.

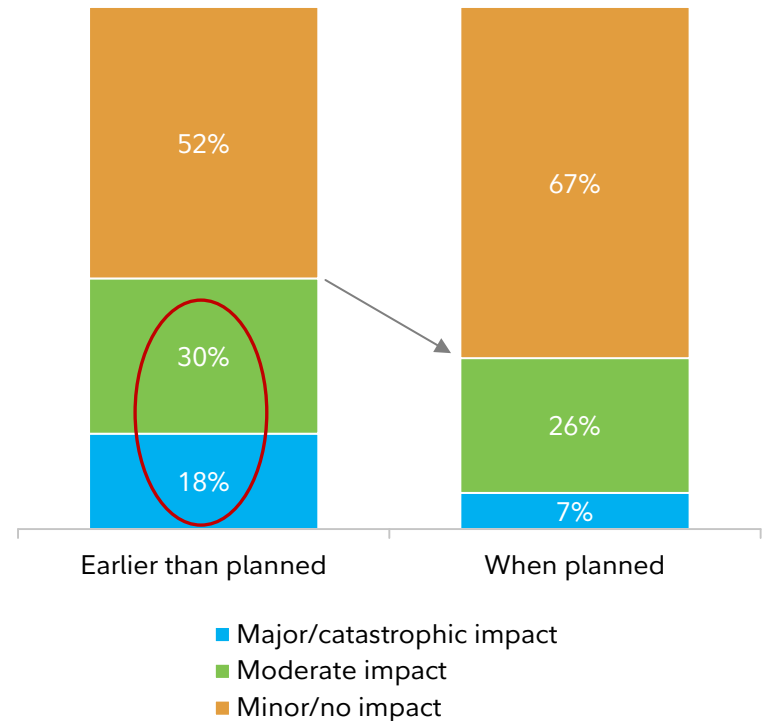
HOW THEY PAY

How respondents paid for out-of-pocket premiums, deductibles, copays, etc.



IMPACT ON LIFESTYLE

48% of those who **retired earlier than planned** report at least a moderate impact on their standard of living.

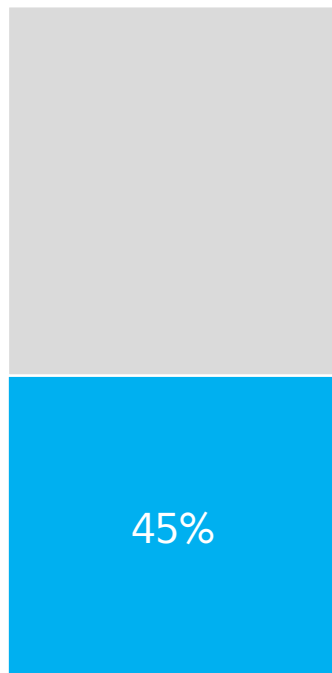




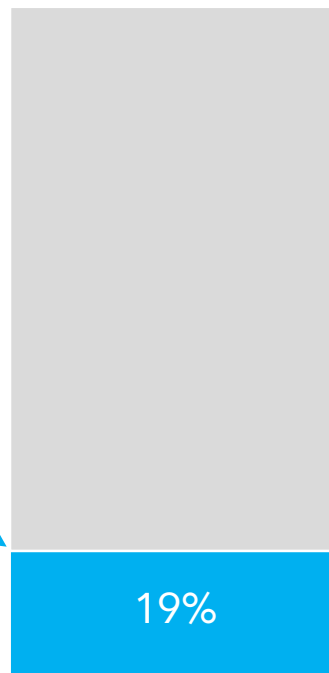
THE COST

19% of early retirees have an HSA-eligible health plan, and only 11% are actively contributing to an HSA. Balances tend to be low, with 61% of those contributing reporting a balance of less than \$5,000.

Early retirees with a high-deductible health plan ...



... **and** their HDHP is HSA-eligible ...



... **and** they are contributing to an HSA.

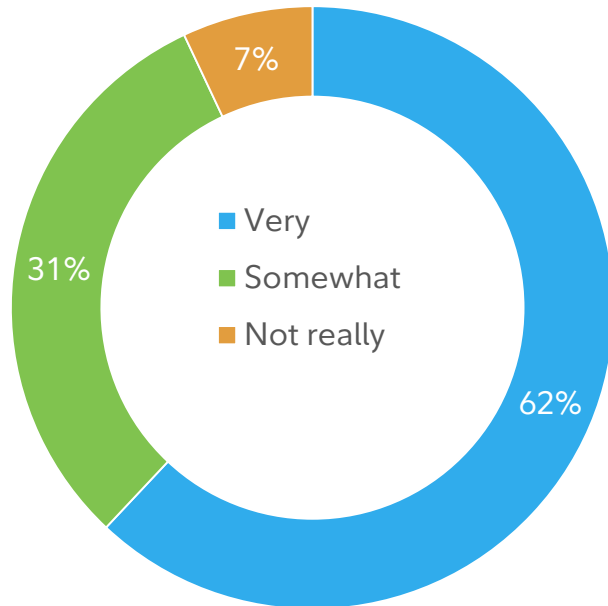




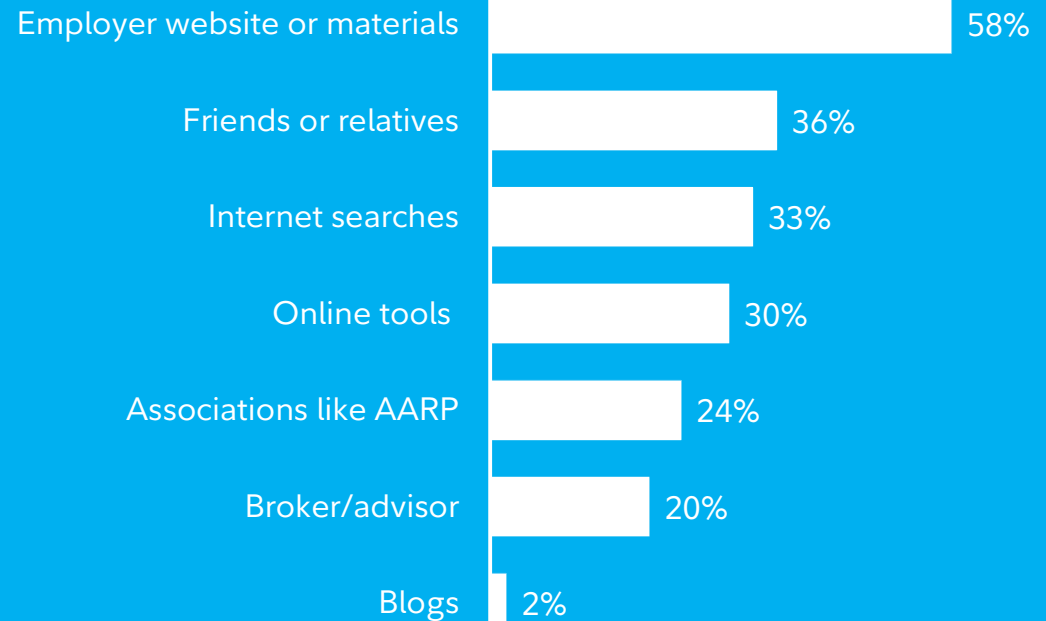
THE CALCULATION

Those who plan to retire before they are eligible for Medicare say health care coverage plays an important role in their decision.

62% of retirees we asked feel they were able to make an educated and confident decision when choosing their health care coverage.



Where early retirees did their research



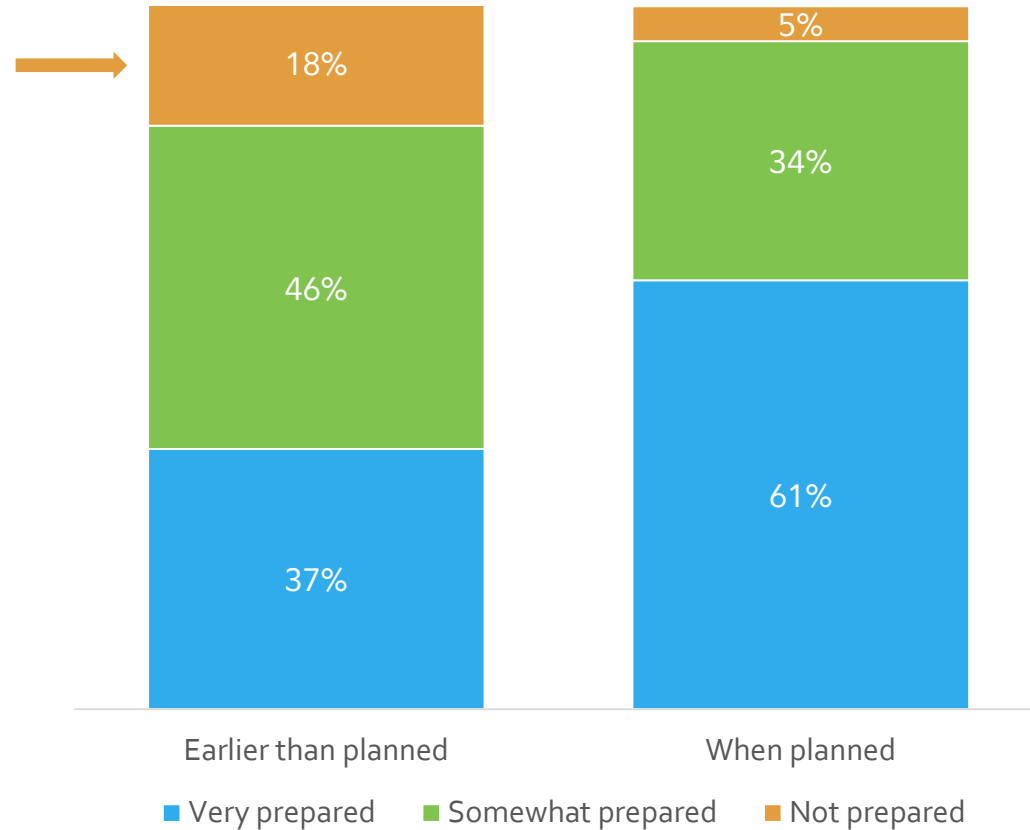
Having control over when you retire makes a difference: 76% who retired when planned felt very confident vs. 52% who retired earlier than planned.



THE CALCULATION

When asked how adequately prepared they feel to cover their health insurance costs, people who retired when they planned were far more likely to feel prepared.

People who retired earlier than planned were **three times** more likely to say they did not feel adequately prepared to cover their health insurance costs.



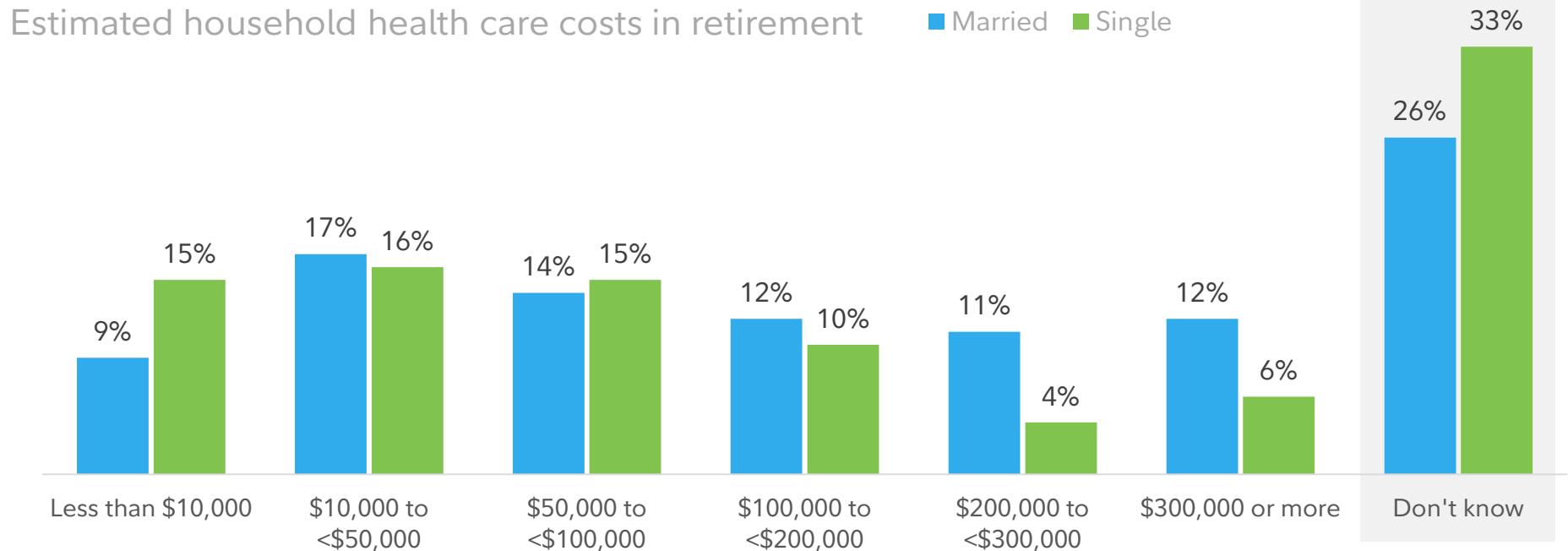
Numbers may not add to 100% due to rounding.

People with an HSA are more likely to feel somewhat or very prepared for health care costs in retirement (93% vs. 88%).



THE MISCALCULATION

Most early retirees either underestimate how much they are likely to spend on health care during retirement — or don't have any idea.



Only 23% of married respondents and 20% of single respondents gave an answer approaching Fidelity's retiree health care cost estimate of \$275,000 for a couple retiring at age 65 in 2017.¹

Those actively contributing to an HSA are more likely to estimate their health care costs in retirement to be \$200,000 or more (40%) vs. those who are not (30%).¹

THE TAKEAWAYS

EMPLOYERS PLAY A BIG ROLE IN ACCESS

A large percent of individuals who retire before age 65 depend on their former employer, or their spouse's employer, for health insurance coverage to bridge the gap to Medicare eligibility. However, since the number of large firms offering retiree health plans is decreasing, people who plan to retire early in the future must consider where they will source adequate coverage before becoming eligible for Medicare.²

EDUCATION

Early retirees rely most heavily on their employers for education on health coverage options. Employers have an opportunity to provide information related to retiree health care coverage, assist employees with estimating long-term costs, and provide them a way to effectively save for these expenditures throughout their active working years. Each of these are valuable resources.

THE HSA OPTION

Today, many individuals have an advantage over recent retirees because they are more likely to have the option to save in a Health Savings Account. Continued education is essential to help individuals understand the significant impact health care costs can have on their retirement savings. If eligible, actively participating in an HSA is a good way to save and grow funds to pay for qualified medical expenses in retirement.

TOOLS AND RESOURCES

Many who retire before age 65 feel they are somewhat prepared for the future. However, the majority underestimate the significant health care expenses that will face them throughout their retirement. The resources below can help individuals understand their options and calculate their estimated health care costs.

Fidelity Tools

- [Fidelity Retiree Healthcare Cost Estimator](#)
- Health care options between retirement and Medicare – [Decision support tool](#)

Fidelity Viewpoints Articles

- [Early unplanned retirement](#)
- [Your bridge to Medicare](#)

The basics on Health Savings Accounts

- [Getting your HSA in shape](#)
- [How an HSA can be a powerful retirement tool](#)

About Fidelity's Early Retiree Research

Unless otherwise noted, data represents insights from Fidelity Investments' survey on Bridging the Gap to Medicare. The online survey was conducted among a random sample of 1,003 adults between the ages of 50 and 64 who had retired in the past three years. The survey was fielded in November 2017 by Greenwald and Associates Inc., an independent third-party research firm. The results of this survey may not be representative of all adults meeting the same criteria as those surveyed for this study.

1. Fidelity estimates a hypothetical couple retiring in 2017, at 65 years old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates with Mortality Improvements Scale MP-2016 to have \$275,000 in total household health care costs throughout retirement. Estimates are calculated for "average" retirees, but may be more or less depending on actual health status, area of residence, and longevity. Estimate is net of taxes. The Fidelity Retiree Health Care Costs Estimate assumes individuals do not have employer-provided retiree health care coverage but do qualify for the federal government's insurance program, Original Medicare. The calculation takes into account cost-sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by Original Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services, and long-term care. Life expectancies based on research and analysis by Fidelity Investments Benefits Consulting group and data from the Society of Actuaries, 2014.
2. According to The Henry J. Kaiser Family Foundation 2017 Employer Health Benefits Survey, in 2017, 25% of large firms that offer health benefits to their workers offer retiree coverage, similar to recent years. However, there has been a downward trend in the percentage of firms offering retirees coverage, from 32% in 2007 and 40% in 1999. Among large firms offering retiree health benefits, most firms offer to early retirees under the age of 65 (95%). A lower percentage (66%) of large firms offering retiree health benefits offer to Medicare-age retirees. These percentages are similar to those in recent years.
<https://www.kff.org/health-costs/report/2017-employer-health-benefits-survey/>

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