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Executive Summary

The Affordable Care Act (ACA) has created new health insurance options for Americans who retire from a full-time job but are not yet eligible for Medicare. Prior to passage of the ACA, many older Americans stayed in jobs they no longer wanted simply to maintain access to employer-sponsored health insurance.¹ It was only when they reached the age of 65, and became eligible for the federal Medicare insurance program, that they could consider retiring in full or part. While many groups will benefit from the ACA, those who have left or will leave full-time jobs and are under the age of 65 are among those with the most to gain. This paper explains how older Americans not yet eligible for Medicare can take advantage of their new insurance options and enjoy enhanced career flexibility later in life.

The Backstory: America's Path to Retirement Is Changing

The traditional model of working full-time at a career job, then retiring at age 65, has been changing for many years and continues to evolve. Already, the majority of Americans with full-time jobs are retiring in stages rather than at a single point in time,² often by transitioning through one or more “bridge jobs” that may involve working part-time or becoming self-employed. Three key factors are behind the shift:

- **Many Americans have not saved enough to retire completely.** The National Retirement Risk Index, developed by the Center for Retirement Research at Boston College, indicates that over half of Americans are at risk of not being able to maintain their pre-retirement standard of living through retirement.³ To compensate, many are delaying full retirement so they can save more and reduce the number of years their savings will have to last.
- **Traditional defined benefit plans have become less common, with 401(k) plans emerging as the primary vehicle for retirement saving.** With traditional pensions, the decision to retire was typically an all-or-nothing proposition. Individuals had to leave their jobs to begin receiving pension payments, and those payments were made in full according to a formula spelled out in their plan. With 401(k) plans, individuals have greater flexibility in deciding when to start drawing on their retirement accounts. They also can vary how much they withdraw each year to reflect changes in their personal circumstances, including income earned in bridge jobs.
- **Some individuals are continuing to work after retiring from career jobs simply to remain active.** As lifespans have increased and medical care has advanced, more people remain in good health and eager to stay active outside the home—without working full-time. Bridge jobs can help. They typically provide greater schedule flexibility, and require fewer hours, than a full-time position. In a recent survey, 42% of U.S. workers indicated they plan to “semi-retire” in the future.⁴

Historically, many workers postponed transitioning to bridge jobs until they turned 65⁵ and became eligible for Medicare. Otherwise, they risked losing health insurance coverage. While their full-time employer

likely provided health insurance, few part-time employers did. Furthermore, buying a policy privately could be expensive—much more, in most cases, than what employers were paying per employee for group plans. Even those who might have been able to afford private insurance premiums were sometimes unable to find plans that would accept them, since insurers could decline coverage for individuals or their dependents with pre-existing medical conditions.

In short, many older but Medicare-ineligible workers were locked into full-time jobs they no longer enjoyed or wanted, simply because individual health insurance was neither affordable nor accessible.⁶ It was only when they became eligible for Medicare that they could leave their career job and still be guaranteed access to health insurance, with no restrictions based on pre-existing conditions.⁷ Some others would find themselves involuntarily shut out of the job market before age 65, perhaps due to physical infirmities, creating a risky gap in their health insurance coverage.

Today the options for both groups are better, largely due to the passage of the Affordable Care Act in 2010.

How the Affordable Care Act Impacts Early Retirees

The Affordable Care Act mandated that, beginning in January 2014, Americans would be eligible to be covered under health insurance policies, known as qualified health plans, that follow ACA guidelines. Those guidelines include a number of provisions aimed at making health insurance accessible and affordable. For example, insurance companies cannot discriminate based on a pre-existing condition, nor can they charge an older individual more than three times what they charge a younger person. These provisions of the ACA are especially valuable to early retirees, as many of these individuals—or their dependents—may have pre-existing conditions, often due to the aging process. In addition, the cap on premiums for older individuals is intended to keep costs down for this demographic group.

Furthermore, insurers must charge women the same premiums levied on men of the same age. (Prior to the ACA, insurers often charged women more, citing their greater use of healthcare services.⁸) Finally, the law makes tax credits and subsidies available to

lower-income individuals and families who might otherwise find health insurance premiums too costly. These tax credits and subsidies may prove quite valuable for retired individuals who have (a) much lower, or zero, wage income, and/or (b) the flexibility to lower their taxable income in the years prior to becoming Medicare eligible at age 65. This income flexibility is discussed later in this paper.

The net result is that, for many pre-Medicare individuals, the ACA has made insurance more accessible, more affordable, and easier to purchase.

The following sections outline information about the ACA. Throughout, points particularly important for early retirees are highlighted.

Buying health insurance after the ACA

Today there are four ways individuals can buy health insurance policies on their own:⁹

- **Via Health Insurance Exchanges (Marketplaces).**

The ACA directed each state to create a public health insurance exchange through which their residents could compare and purchase individual health insurance policies. Each exchange is known as a Health Insurance Marketplace.¹⁰ Residents of states that do not create their own Marketplaces are eligible to shop on one created by the federal government.

Importantly, individuals who wish to be eligible for tax credits or subsidies must purchase their coverage through a Marketplace.

Individuals can learn about the insurance plans available to them at HealthCare.gov, a website established by the federal government. For those who live in a state that has created a Marketplace, HealthCare.gov will route them to that exchange's website.

- **Directly from a health insurance company.**

Not all health insurance plans are offered via a Marketplace. Individuals can find health insurance plans sold outside the exchanges at HealthCare.gov using the site's Plan Finder tool.

- **From an online insurance seller.** These websites typically offer plans from a number of insurance companies, and allow prospective buyers to compare prices and features.
- **Through insurance agents or brokers.** Some agents sell policies from just one insurance company, while others—independent agents—may sell policies from several insurance companies. Brokers almost always offer policies from multiple insurers. Both agents and brokers are typically paid commissions by the insurance companies that underwrite the policies they sell. Brokers also may charge fees.

No matter how a person buys a health insurance plan, the same standards for coverage now apply. Furthermore, prices are tightly regulated and cannot be changed to account for commissions or where the purchaser shopped for coverage.

While some health insurance plans were grandfathered and do not have to comply with the same coverage standards, these plans are not available to new enrollees.

As mentioned earlier, some individuals will qualify for ACA tax credits and/or subsidies to help cover the cost of a privately purchased insurance plan. Those who do qualify will want to buy on a Marketplace, since that is the only way they can utilize their tax credits. People who do not qualify for tax credits should compare policies available within and outside their Marketplace.

Standardized Coverage

While researching potential health insurance options, prospective retirees need to understand the new types of coverage available, as they will likely be different from the coverage options currently available through their employer.

Health insurance plans offered through Marketplaces and other avenues noted above are slotted into one of five categories based on the level of benefits provided:

- **Bronze** plans are designed to pay, on average, 60% of covered expenses.

- **Silver** plans are designed to pay 70% of covered expenses.
- **Gold** plans are designed to pay 80% of covered expenses.
- **Platinum** plans are designed to pay 90% of covered expenses.¹¹
- **Catastrophic** plans are designed to protect only against very high medical costs and hence have very low premiums, but also very high deductibles (\$6,600 for individuals and \$13,200 for families in 2015).

While catastrophic plans are primarily for individuals under age 30, an older individual may qualify based on a hardship exemption. (See Appendix 1: *Life Situations That May Qualify for a Hardship Exemption*).

The ACA requires all qualified health plans to offer certain core, essential benefits. (See Appendix 2: *Essential Benefits Required of All Health Insurance Plans*.) In addition, all plans must provide certain preventive care services, such as adult vaccinations and medical screenings, without requiring co-payments from their insureds.

These core benefits and preventive care services should prove valuable to early retirees, as they are typically more frequent users of many of these services, such as prescription drugs and medical screenings, than are younger individuals.

While plans are required to offer standardized categories of coverage, they can vary in terms of their structure and their physician rosters. Plans set up as health maintenance organizations, or HMOs, typically require that patients get approval from their primary care physician before seeing a specialist. Also, they generally do not provide any coverage if a patient sees a doctor outside the plan's network of participating providers. Preferred provider organizations, or PPOs, allow patients to see specialists without getting approval from their primary care physician and may cover visits to doctors outside the plan's network, albeit at a lower rate. Premiums tend to be higher for PPOs than for HMOs.

Each plan has its own network of participating physicians, hospitals, and other service providers, as well as its own unique list of prescription drugs for which it will pay. Prior to purchasing a plan, shoppers may want to confirm whether their doctors are in network. To make that easier, the ACA requires that each Marketplace plan provide a link on its website to a list of providers in its network, as well as a link to a list of the prescription drugs it will cover.

Early retirees often will have been using their family physicians and/or specialists for years or even decades, and may have a strong desire to maintain the ability to use those same doctors.

Premium Assistance Tax Credits and Subsidies

Premium assistance tax credits—tax credits that help offset the cost of health insurance premiums—are made available based on income and family size. The size of the credit can vary depending upon the individual's age (going up as the buyer gets older), and the cost of the policy he or she selects.¹²

To qualify for a premium assistance tax credit, individuals must purchase their plan on a Marketplace, must not have access to an employer-provided health plan, and must not be eligible for Medicare, Medicaid, the Children's Health Insurance Program, or other forms of public assistance. Individuals also must be U.S. citizens or have proof of legal residency, must file taxes jointly if married, and, in general, must have household income between 100% and 400% of the federal poverty level. In 2015, that would equate to \$15,730 to \$62,920 for a household of two.¹³ The formula differs slightly in states that expanded access to Medicaid following passage of the ACA. In those states, the threshold for eligibility for tax credits begins not at 100% of the federal poverty level, but rather at 138% of that level—the point at which the individual no longer qualifies for Medicaid.¹⁴

Note that in addition to calling for states to create exchanges for individuals to purchase health insurance, the ACA also allowed states to create exchanges through which small businesses could purchase employer-sponsored coverage for their employees under the Small Business Health Options Program, also known as SHOP. Premium assistance tax credits are not available to individuals enrolled in plans sold via SHOP Marketplaces.¹⁵

Individuals who would otherwise fall outside the thresholds for premium assistance tax credits may be able to qualify for them by controlling, to the extent possible, the amount or source of their income. The potential benefit is meaningful. The ability to reduce taxable income will likely be easier for a retiree than a younger worker, since the retiree will no longer have taxable wage income. Since the tax credit could prove substantial, those planning to retire prior to age 65 may wish to consider income planning options prior to leaving their employment. For a 62-year-old couple in Orlando, Florida, for example, the upper income limit for tax credit eligibility in 2015 is \$62,920. If that couple happened to earn just \$80 more—\$63,000—they would not qualify for a credit. If they earn \$62,920 or less, however, they would qualify for a credit of \$10,272.

For purposes of tax credit eligibility, income is defined as a person’s “modified adjusted gross income,” or MAGI, which is simply the adjusted gross income figure shown on his or her federal income tax return, plus any tax-exempt interest, untaxed Social Security benefits, and foreign income. One way to minimize income by that definition is to take advantage of federal income tax rules for Roth IRA and Roth 401(k) retirement savings plans. Unlike income from a traditional IRA or 401(k), income from a Roth account is not included in MAGI. Accordingly, individuals could convert traditional IRA and 401(k) accounts to Roth accounts in the years preceding retirement from a full-time job. Then, they could utilize Roth income during the pre-Medicare years when they are purchasing their own insurance through a Marketplace. (Note that income taxes would be due on any monies converted to a Roth account in the year of the conversion.) Alternatively, an individual could create a bucket of after-tax savings and tap it for non-taxable cash during the years that premium assistance tax credits are available. In addition to helping people qualify for tax credits, these strategies may help them qualify for subsidies as well.

Premium assistance tax credits are both advanceable and refundable. “Advanceable” means taxpayers need not wait until the end of the tax year to benefit from a credit. Instead, the credits can function like advances that automatically reduce the individual’s monthly premiums.¹⁶ If for any reason a premium assistance tax credit paid in advance turns out to have been too high, the difference may be owed by the taxpayer when filing his or her federal tax return for that year. “Refundable” means taxpayers can claim the full amount of their tax credit even if they have little or no federal income tax liability.¹⁷

In addition to premium assistance tax credits, anyone who signs up for a Silver plan and falls within prescribed income limits also may qualify for cost-sharing subsidies. For households with income up to 250% of the federal poverty level—which equates to \$39,325 for a family of two for 2015—the subsidies reduce deductibles and co-payments so that families do not pay more than a given limit. Table 1 shows the cost-sharing limits for such families in 2015.

Table 1. ACA Cost-Sharing Limits

This table shows the annual cost-sharing limits, by household income tier, for households qualifying for cost-sharing subsidies in 2015. The amounts shown in the center and right columns are the maximum amounts individuals and families will have to pay for a Silver plan purchased on a Marketplace for that year.

Household Income Tier, by Federal Poverty Level	Annual Cost-Sharing Limits for Self-Only Coverage	Annual Cost-Sharing Limits for Family Coverage
100% – 150%	\$2,250	\$4,500
Greater than 150% – 200%	\$2,250	\$4,500
Greater than 200% – 250%	\$5,200	\$10,400

Source: Congressional Research Service.¹⁸

Enrollment and Coverage

Many individuals who purchase their health insurance coverage through a Marketplace will do so during the Open Enrollment Period that typically begins about two months before year-end. For 2015, the Open Enrollment Period ran from November 15, 2014 to February 15, 2015. Future annual enrollment periods will have similar dates. For 2016, the period begins November 1, 2015 and ends on January 31, 2016.

Workers who leave jobs prior to age 65, either voluntarily or involuntarily, and lose their employer-based health insurance coverage as a result, also qualify to purchase coverage on a Marketplace plan during a Special Enrollment Period that runs at all times when the Open Enrollment period is closed. Individuals who lose health insurance coverage due to expiration of their COBRA benefits also are eligible to purchase a Marketplace plan during a Special Enrollment Period, although individuals who voluntarily drop COBRA coverage are not.¹⁹ Eligible individuals can make use of a Special Enrollment Period beginning 60 days before losing their job and up to 60 days after losing their job.

It is important for early retirees to recognize that if COBRA coverage is voluntarily dropped, they do not become eligible to enroll in new coverage during the Special Enrollment Period, but rather have to wait for an Open Enrollment Period.

When a Marketplace plan becomes effective

In most states, coverage under a Marketplace plan becomes effective January 1 if enrollment is done between November 15 and December 15 and the initial premium is received by the due date required by the insurance company.²⁰ For anyone who enrolls in a plan after December 15, the effective date of the policy is determined as follows:

Enrollment	Effective Date*	Example
Between 1st and 15th of month	First day of following month	Enrollment completed January 8, coverage takes effect February 1.
Between 16th and end of month	First day of second following month	Enrollment completed January 18, coverage takes effect March 1.

*Assumes payment of initial premium by due date.

Conclusion

The Affordable Care Act has made health insurance more accessible and affordable for many Americans, including those retiring from full-time jobs prior to becoming eligible for Medicare at age 65. Those planning to retire before age 65 should visit the [HealthCare.gov](https://www.healthcare.gov) website to familiarize themselves with the insurance options available to them, and to determine whether they might qualify for premium assistance tax credits and subsidies that can help to cover the cost of a plan. If they are not eligible for tax credits or subsidies, they can still shop for health insurance plans on the exchange applicable to their state. They might also be eligible to buy a plan directly from an insurance company, from an insurance agent or broker, or via an online shopping service. With health insurance more accessible and affordable, many pre-Medicare Americans may find they no longer need to stay in jobs they don't want simply to maintain access to health insurance, leaving them free to chart a more palatable course to retirement.

Appendix 1: Life Situations That May Qualify for a Hardship Exemption

Individuals 30 and older who experience any of these hardships may qualify for a hardship exemption, thereby allowing them to purchase a Catastrophic insurance plan.²¹

- Homelessness
- Eviction within the past six months, facing eviction, or foreclosure
- Receiving a shut-off notice from a utility company
- Domestic violence
- Death of a close family member
- A fire, flood, or other natural or human-caused disaster that caused substantial damage to property
- Bankruptcy filing within the last 6 months
- Medical expenses that couldn't be paid in the last 24 months
- Unexpected increases in necessary expenses due to caring for an ill, disabled, or aging family member
- Claiming as a tax dependent a child who has been denied coverage under Medicaid or the Children's Health Insurance Program (CHIP)
- Eligibility for enrollment in a qualified health plan through a Marketplace based on an eligibility appeals decision
- Ineligible for Medicaid because the state the individual resides in didn't expand Medicaid under the ACA
- Individual's insurance plan was cancelled, and individual believes other Marketplace plans are unaffordable
- Another hardship in obtaining health insurance

Appendix 2: Essential Benefits Required of All Health Insurance Plans

- Outpatient services
- Emergency services
- Hospitalization
- Maternity and newborn care
- Mental health and substance use disorder, including behavioral health treatment
- Prescription drugs
- Rehabilitative services and devices for injury, disability, or chronic condition
- Laboratory services
- Preventive and wellness services and chronic disease management
- Pediatric vision and dental care

Source: HealthCare.gov (<https://www.healthcare.gov/blog/10-health-care-benefits-covered-in-the-health-insurance-marketplace/>).

- ¹ Baker, Dean, AARP Public Policy Institute, “Job Lock and Employer-Provided Health Insurance: Evidence from the Literature,” p. 2, March 2015.
- ² The Center on Aging at Boston College, <http://www.bc.edu/research/agingandwork/projects/bridgeJobs.html>.
- ³ Munnell, Alicia, and Wenliang Hou, and Anthony Webb, “NRRI Update Shows Half Still Falling Short,” December 2014.
- ⁴ HSBC, “The Future of Retirement: Choices for Later Life,” p. 11, 2015.
- ⁵ Quinn, Joseph, “The Role of Bridge Jobs in Retirement Patterns of Older Americans in the 1990s,” p. 6, July 1996.
- ⁶ Baker, Dean, AARP Public Policy Institute, “Job Lock and Employer-Provided Health Insurance: Evidence from the Literature,” p. 23, March 2015.
- ⁷ Coe, Norma, and Mashfiqur Khan, and Matthew Rutledge, “Sticky Ages: Why Is Age 65 Still a Retirement Peak?,” p. 10, January 2013.
- ⁸ *The New York Times*, “Gender Gap Persists in Cost of Health Insurance,” March 19, 2012, http://www.nytimes.com/2012/03/19/health/policy/women-still-pay-more-for-health-insurance-data-shows.html?_r=0.
- ⁹ HealthCare.gov, <https://www.healthcare.gov/apply-and-enroll/income-too-high-for-tax-credit/>
- ¹⁰ HealthCare.gov, <https://www.healthcare.gov/quick-guide>.
- ¹¹ Andrews, Michelle, “In Addition to Premium Credits, Health Law Offers Some Consumers Help Paying Deductibles and Co-Pays,” *Kaiser Health News*, July 9, 2013, <http://www.kaiserhealthnews.org/features/insuring-your-health/2013/070913-michelle-andrews-on-cost-sharing-subsidies.aspx>.
- ¹² Fernandez, Beatrice, Congressional Research Service, “Health Insurance Premium Credits in the Patient Protection and Affordable Care Act (ACA),” p. 7, March 12, 2014.
- ¹³ These poverty levels are for residents of any of the 48 contiguous states. The levels for Alaska and Hawaii are higher.
- ¹⁴ Fernandez, Beatrice, Congressional Research Service, “Health Insurance Premium Credits in the Patient Protection and Affordable Care Act (ACA),” p. 5, March 12, 2014.
- ¹⁵ *Ibid.*, p. 4.
- ¹⁶ *Ibid.*, p. 2
- ¹⁷ *Ibid.*
- ¹⁸ “Health Insurance Premium Credits in the Patient Protection and Affordable Care Act,” Congressional Research Service, March 18, 2015.
- ¹⁹ HealthCare.gov, <https://www.healthcare.gov/coverage-outside-open-enrollment/special-enrollment-period/>.
- ²⁰ Kaiser Family Foundation, <http://kff.org/health-reform/faq/health-reform-frequently-asked-questions/#question-how-long-after-i-enroll-in-a-plan-will-coverage-take-effect>.
- ²¹ HealthCare.gov, <https://www.healthcare.gov/fees-exemptions/exemptions-from-the-fee/#hardshipexemptions>.

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An individual's ability to qualify for health insurance is dependent on many factors including, but not limited to, laws enacted by legislative bodies such as Congress.

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