PERSONAL FINANCE

How to delay or ditch Medicare and pick it up later without paying penalties

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KEY POINTS

- With more older Americans either staying in or returning to the workforce after age 65, qualifying health insurance through a job could be a viable alternative to Medicare.
- Regardless of whether you put off enrolling in Medicare because you have qualifying coverage or you cancel it down the road for insurance through a job, it's important to be aware of a few potential snags.
- You also should know the rules for signing up once you lose that workplace option.

Once you reach age 65 and are eligible for Medicare, sorting through your options can be tricky. Add in any layer of complexity to the maze — i.e., jumping in and out of the workforce, dropping and picking up coverage — and look out.

The program comes with rules — lots of them. And if you don't follow those guidelines, you might end up paying a price for it.

"You could be accruing late-enrollment penalties that last your lifetime," said Elizabeth

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While most people sign up for Medicare at age 65 because they either no longer are working or don't otherwise have qualifying health insurance, the ranks of the over-65 crowd in the workforce have been steadily growing for years. And in some cases, that means employer-based health insurance is an alternative to Medicare.

Among people ages 65 to 74, the share projected to be working in 2026 is 30.2%, up from 26.8% in 2016 and 17.5% in 1996, according to the Bureau of Labor Statistics. For those ages 75 and older, 10.8% are expected to be at jobs in 2026, up from 8.4% in 2016 and 4.6% in 1996.

The basic rules for Medicare are that unless you have qualifying insurance elsewhere, you must sign up at age 65 or face late-enrollment penalties. You get a seven-month window to enroll that starts three months before your 65th birthday month and ends three months after it.

Generally speaking, if you (or your spouse) have group coverage at a company with 20 or more employees, you can delay signing up for Medicare. Some workers sign up for Part A (hospital coverage) because it typically comes with no premium and then delay Part B (outpatient care) and Part D (prescription drug coverage).

For 2020, Part B comes with a standard monthly premium of $144.60 and Part D's base premium is $32.74. Higher earners pay more for both.

Even if you sign up for Medicare at age 65, you can drop it later if you want to switch to qualifying employer-based coverage. (You also could keep Medicare and pair it with your large-group employer plan, in which case Medicare would be your secondary insurance).

Regardless of whether you delay Medicare or drop it, it's important to make sure you're aware of a few potential snags.

For starters, if the work-based coverage comes with a health savings account, you cannot contribute to it if you remain on any part of Medicare, including just Part A.

Also, make sure that your employer plan would be considered "creditable" coverage for both Parts B and D. Your insurance company should provide you with that information.

"Those HSA plans might be okay for Part B but not Part D," Gavino said.

Additionally, if you have a Medicare supplement policy — i.e., "Medigap" — you'd have to drop that, as well. And those policies have their own rules for enrolling, which means you might face medical underwriting if you reapply down the road.

There also are deadlines to be aware of when you eventually do lose your coverage and want to switch to Medicare, and, often, requirements for proof that you had qualifying coverage.

You also must have Part D coverage — whether as a standalone plan or through an Advantage Plan — within two months of your workplace coverage ending, unless you delayed signing up for both Part A and B. If you miss that window, you could face a penalty when you do sign up. That amount is 1% of the national base premium for each full month that you could have had coverage but didn't.

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Likewise, if you'd want an Advantage Plan — which delivers Parts A, B and typically D — you only get two months from when your work coverage ends. If you miss that, you'd have to wait until the next enrollment period.

For those who may cycle in and out of the workforce and therefore in and out of workplace insurance: Each time you lose the coverage, the eight-month window restarts, said a spokesman for the Centers for Medicare and Medicaid Services.

In other words, if you go to another employer that offers qualifying coverage before that timeframe runs out, you're in the clear. The next time you drop it, that window restarts. However, remember that for drug coverage, it's two months.

As for providing proof of coverage: Once you no longer have it through work, the insurer should mail you a letter showing the dates you were covered in its plan.

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“A lot of people miss that by mistake and throw it out,” said Danielle Roberts, co-founder of insurance firm Boomer Benefits in Fort Worth, Texas. “It’s important to keep that, especially for Part D.”

She said that if you don’t provide the proof after it’s requested, those late-enrollment penalties could appear.

“It’s not as simple as just calling to change it,” Roberts said. “You have to go through an appeals process, and in the meantime you’re paying the penalty.”

For Parts A and/or B signup, you need to provide the Social Security Administration with a form from your employer that certifies you were covered, Roberts said.

“The employer is testifying that you’ve had access to large group coverage,” she said.

Also, be aware that if you don’t sign up for Part B during your eight-month window, the late penalty will date from the end of your employer coverage (not from the end of the special enrollment period), said Patricia Barry, author of “Medicare for Dummies.”

Regardless of your situation, it’s important to avoid waiting until the last minute to plan, Gavino said.

“You should start planning when you know you’re going to retire so you have everything lined up in time,” she said.

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