J.P.Morgan
WEALTH MANAGEMENT

Navigating Health Care Before and During Retirement

Retirement should be a time to relax and enjoy the results of your hard work. However, before you embrace this new chapter, it is important to plan for one of the most significant financial responsibilities you may face: health care. As you transition from full-time work to retirement, understanding and planning for health care expenses can be a key to your financial security.

Health care planning concerns

Health care is frequently the most significant expense in retirement, a reality with which many retirees and pre-retirees grapple.

According to the University of Michigan National Poll on Healthy Aging from February and March 2024, health care is the top financial concern for 56% of retirees.[2] Despite this widespread concern, many retirees have not adequately budgeted for health care expenses, revealing a critical gap in financial planning that needs to be addressed.

Medical care prices frequently rise at a faster rate than the rest of the economy, often outpacing headline inflation. J.P. Morgan Asset Management's 2025 Guide to Retirement further illustrates the escalating costs associated with health care. In 2025, the average 65-year-old is spending $572 monthly on health care, a figure projected to rise to $1,611 per month in today's dollars by 2055 when they reach age 95. This increase is driven by more frequent and costly medical visits and procedures. These projections exceed what most Americans anticipate spending, underscoring the importance of precise and informed financial planning.

Health care options prior to Medicare eligibility at age 65

Navigating health care options before reaching Medicare eligibility at age 65 can be complex, but understanding the available choices is crucial for effective planning. For individuals who are not disabled or who choose to retire before age 65 without retiree health care from their employer, there may be a gap in coverage. It is important to explore several health care options available:

- **Employer health insurance:** Often serves as the primary line of coverage for many individuals, providing comprehensive benefits through their workplace. Once you retire, however, your coverage under your employer's plan is usually terminated.

- **Spouse's plan:** If you are retiring before turning 65 and have a spouse or domestic partner who is working or who has retiree health insurance, you may be able to join their plan, which could be a cost-effective option. Keep in mind that not all employers offer this benefit, and there may be additional costs or rules involved—including a timing gap if your spouse can only make changes during an "open enrollment" period, usually in the fall.

- **COBRA (Consolidated Omnibus Budget Reconciliation Act) coverage:** Allows individuals to temporarily continue their employer-sponsored health insurance after leaving a job, although they must pay the full premium cost plus an administrative fee. COBRA coverage is usually limited to 18 months post-retirement.

[1] University of Michigan National Poll on Healthy Aging, "On Their Minds: Older Adults' Top Health-Related Concerns," March 2024.
[2] Centers for Medicare & Medicaid Services, "What's a Health Savings Account?" (September 2024).

- **Private health insurance:** Offers customizable plans for medical expenses, allowing individuals to compare plans for optimal coverage and affordability. It is accessible through the official marketplace at www.healthcare.gov.

- **Health Savings Account (HSA):** HSAs are a tax-efficient tool for managing health care costs. Contributions are tax-deductible, reducing taxable income in the year they are made. The funds within the account grow tax-free, allowing for additional compounding growth. Withdrawals from an HSA are also tax-free when used for qualified medical expenses, providing significant savings on health care costs.

  - In order to qualify for an HSA, you must be enrolled in a "high-deductible health plan." Some marketplace plans are high-deductible plans that would allow you to contribute to an HSA.

  - In 2025, the maximum annual contribution limits for HSAs are set at $4,300 for individuals with self-only coverage and $8,550 for those with family coverage. Those limits include any company matches. Individuals aged 55 and older can make an additional annual catch-up contribution of $1,000.

  - If you have a well-funded HSA, even if you no longer have insurance coverage, you can use the funds in the HSA to pay for medical expenses until you reach age 65. Note that most people will not have enough funds in an HSA to cover a significant medical event.

Medicare options at age 65

Medicare is a federal health insurance program in the U.S. designed primarily for individuals age 65 and older, though it also covers certain younger people with disabilities or specific health conditions. Medicare is divided into several parts, each offering different coverage:

Medicare Part A (Hospital Insurance):

Covers inpatient hospital stays and related follow-up care, plus hospice care. Most people do not pay a premium for Part A if they or their spouse paid Medicare taxes while working. While there are no premiums for Part A, deductibles and co-insurance apply for hospital stays over 60 days.

Medicare Part B (Medical Insurance):

Covers outpatient services, including doctor visits, outpatient care/surgeries, labs, x-rays and ambulances. It requires a monthly premium, which varies based on income. Most clients have their premiums deducted from Social Security once they claim.

A monthly income-based surcharge ("Income Related Monthly Adjustment Amount" or "IRMAA") may be assessed in addition to the base premium for Medicare Part B (and Part D, if selected). It is calculated from your Modified Adjusted Gross Income (MAGI) on your tax return from two calendar years prior (so your 2025 IRMAA is calculated using your 2023 MAGI). The highest surcharge for 2025 based on 2023 tax returns is $528 per month for each client filing singly with MAGI of $500,000 or greater, or $750,000 or greater if filing jointly. The IRMAA ends up being about 1% of your prior period MAGI. While that amount seems small, since it lags by two years it can have a more material impact than it seems like it might. If you choose, you can seek guidance from a CPA or tax professional to think about strategies to potentially reduce the IRMAA, and you can work with your financial professional to modify other spending in response to the IRMAA.

Parts A and B combined form the foundation of Medicare coverage, also known as "Original Medicare."

Medicare Part C (Medicare Advantage):

Offers an alternative to "Original Medicare" through a separate annual election with a private insurance provider that is approved by Medicare. In addition to including hospital (Part A) and medical (Part B) coverage, Part C can include drug coverage (Part D), as well as additional coverage for dental, vision and hearing services.

These plans may have different rules, costs, and coverage restrictions. Clients pay Part B premiums plus a possible additional surcharge to the private insurance provider.

Medicare Part D (Prescription Drug Coverage):

Helps cover the cost of prescription drugs and is offered through private insurance providers. It requires a separate premium and is designed to work alongside Original Medicare (Parts A and B) or with a Medicare Advantage Plan.

Clients who opt in pay an additional premium to the private insurance provider. Co-pay costs vary based on the drug tiers in the plan's formulary and whether the drugs are brand-name or generic.[3]

If you need specific drugs, you should confirm that they are covered by the Part D policy you are selecting, especially if you are buying a Medicare Advantage plan that covers prescription drugs.

[3] U.S. Centers for Medicare & Medicaid Services, "Your coverage options."

Medigap: Filling the 'gap' in Medicare coverage

Medigap, also known as Medicare Supplement Insurance, is a type of supplemental insurance offered by private insurance providers to help cover costs that Medicare does not, such as co-pays, co-insurance, and deductibles. It is designed to fill the "gap" in coverage, making health care expenses more manageable.

- **Eligibility:** To enroll in Medigap, you must have both Medicare Parts A and B.
- **Premiums:** Medigap requires its own monthly premium, separate from Part B, and each spouse needs their own Medigap policy.
- **Restrictions:** You cannot enroll in Medigap if you have Part C Medicare Advantage, Medicaid, or military TRICARE.

Medigap vs. Medicare Advantage

Medigap is available for people who elect to enroll in Original Medicare (Parts A and B). Medigap may be able to help you cover your out-of-pocket costs if you choose Original Medicare for hospital and medical coverage. Medicare Advantage is coverage you choose in place of Original Medicare.

Medicare Advantage is usually more restrictive than Original Medicare in that it generally requires that you use in-network doctors and hospitals. Original Medicare is accepted by most doctors and hospitals in the U.S. While Medicare Advantage covers additional areas like dental, vision and hearing, you may need a referral to see specialists or prior authorization for services or procedures.

Medigap policies generally allow you to see any health care professional without a referral. Medigap plans are standardized—confusingly, they are also identified by letters, from A through N. Every plan with the same letter provides the same coverage (so Plan A covers the same thing no matter who provides the plan). The different lettered plans provide different coverage—for example, Plan L covers 75% of your Part B coinsurance or copayment, while plan A covers 100%. Prices can vary widely among plans with the same benefits, so it can make sense to shop around.

Myths about Medicare

There are several common misconceptions about Medicare and some important issues to understand:

Automatic enrollment: Medicare does not automatically enroll you. If you or your spouse are still working, coordinate with your employer's health care plan. Otherwise, enroll during the initial window—three months before to three months after your 65th birthday—to avoid a lifetime penalty. For example, if your 65th birthday is in August, you can enroll as early as May 1 and as late as November 30. If you miss your initial six-month window, you may permanently pay higher premiums when you eventually enroll. The penalty is based on how long it has been since your enrollment period, so even if you miss your initial enrollment it probably makes sense to enroll as soon as possible.

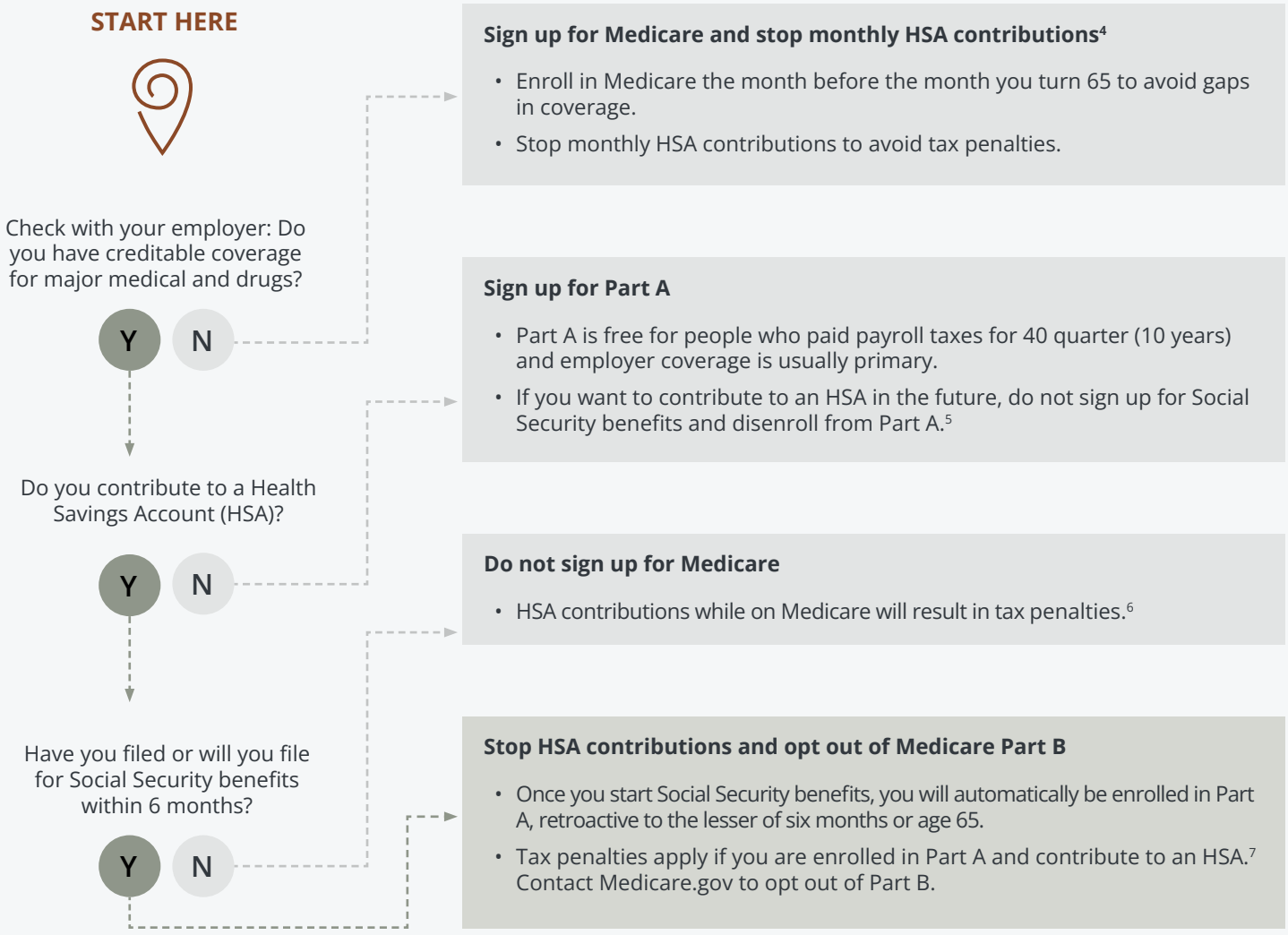
Free coverage: Medicare is not entirely free. While Part A (hospital care) has no premiums, other parts involve costs. For more details, visit https://www.medicare.gov/basics/costs/medicare-costs.

Comprehensive coverage: Medicare does not cover everything. Expect co-pays, co-insurance and deductibles, with no annual out-of-pocket maximum.

Long-term Care: Medicare does not cover long-term nursing care. Long-term care is covered by ***Medicaid***, but Medicaid only covers people who have very limited income and assets.

65 and working: Should I sign up for Medicare?

If you are approaching age 65 and continue to work, deciding whether to sign up for Medicare can be a complex decision influenced by your current employment benefits and future health care needs. The following chart provides a step-by-step guide to help you navigate this decision.



[4] Assumes Part A is no cost (generally for people who paid payroll taxes for 40+ quarters or are married to a beneficiary who did so). Some individuals may choose to sign up for Part A and Part B earlier than shown if they want additional coverage.

[5] Ask your employer for documentation of creditable coverage for major medical and for drug coverage. Employer coverage for less than 20 people is usually not creditable and will end at age 65 or become secondary after Medicare has paid.

[6] To disenroll you must have an interview with the Social Security Administration and use Form CMS 1763. When you sign up for Part A again or sign up for Social Security, coverage may be retroactive for up to 6 months. You will be unable to disenroll if you are receiving Social Security.

[7] Total HSA contributions for the year in excess of the maximum contribution for the year divided by the number of months you are eligible to make contributions will result in tax penalties (6% of the excess contribution each year). This is not intended to be individual tax advice; consult your tax professional.

For more information, see www.mymedicarematters.org/enrollment/am-i-eligible, sponsored by the National Council on Aging. Source: IRS Publication 969, National Council on Aging and Medicare.gov websites as of December 31, 2023; J.P. Morgan Asset Management analysis.

Please note: This information is not offered as personal tax or legal advice. Individuals should make benefit decisions in consultation with a qualified tax or legal professional.

Key issues to consider

Coverage Gaps: Enrolling during your birthday month or later can lead to a coverage gap until the following month. Plan ahead to avoid unexpected expenses.

Lifetime Penalties: Failing to enroll in Medicare at 65 without creditable coverage results in penalties. Creditable coverage is employer-provided insurance that matches Medicare's level.

If you or your spouse are still working, coordinate with your employers to alert Medicare and see if Medicare can provide secondary insurance coverage for expenses that the employer health insurance plan does not cover.

Tax Penalties: Once enrolled in Medicare, you cannot contribute to a Health Savings Account (HSA). Violating this rule incurs a 6% penalty on excess contributions. To avoid this, stop HSA contributions six months before signing up for Medicare.

By understanding these myths and issues, you can make informed decisions about your health care coverage and timing in retirement, ensuring you avoid unnecessary penalties and gaps in coverage.

Getting ready for Medicare

1. Understand eligibility:

Most people qualify for Medicare at age 65. Exceptions include those with certain disabilities, end-stage renal disease (ESRD), or amyotrophic lateral sclerosis (ALS), who may qualify earlier.

2. Plan for enrollment timing:

Enrolling during your birthday month or later means coverage starts the first day of the following month, which could leave you temporarily without coverage. Enrolling early, ideally in the three months before your birthday month, ensures your coverage starts on the first day of your birthday month, preventing any gaps.

If your 65th birthday falls on the first day of the month, the Social Security Administration considers it to be in the previous month, shifting your enrollment period one month earlier.

3. Consider your current coverage:

If you are still working and have employer-sponsored health coverage, understand how it coordinates with Medicare. You may have a special enrollment period after your employer coverage ends.

4. Evaluate prescription drug needs:

Consider enrolling in Medicare Part D for prescription drug coverage. Delaying enrollment without creditable coverage (employer insurance comparable to Medicare-level) can result in lifelong penalties.

5. Plan for international retirement:

Medicare generally does not cover medical services outside the U.S. Explore local insurance options if retiring abroad or traveling internationally.

6. Manage Health Savings Accounts (HSAs):

Once enrolled in Medicare, you can no longer contribute to an HSA. Plan to stop contributions six months before enrolling in Medicare to avoid penalties.

7. Annual review:

From October 15 to December 7 each year, review and adjust your Medicare coverage to better suit your needs.

How to sign up for Medicare

1. Automatic enrollment:

- If you're already receiving Social Security or railroad retirement benefits, you will be automatically enrolled in Medicare Parts A and B and will receive an enrollment kit before eligibility.

2. Manual enrollment:

- If you are not receiving Social Security benefits, sign up for Medicare manually. You can enroll online or in person:
  - **Online:** Visit the Social Security Administration's website to apply for Medicare. This is the fastest and easiest method.
  - **In-Person:** You can also visit your local Social Security office to enroll. Call ahead to check if an appointment is needed.
- Have your Social Security number, current health insurance information and personal identification ready. You may also need your employment details if you are still working.

3. Special enrollment period:

- If you are still working at 65 and have employer-sponsored health coverage, you have an 8-month special enrollment period after your employer coverage ends to sign up for Parts A and B without penalties.

4. Choose your Medicare parts:

- Decide which parts of Medicare you need: Part A (hospital insurance), Part B (medical insurance), and/or Part D (prescription drug coverage). If you have other health coverage, such as through an employer, consider how Medicare will coordinate with it.
- Enroll in Medicare Part B and D for prescription drug coverage during your Initial Enrollment Period to avoid penalties.

5. Review and confirm:

- After enrolling, review your Medicare information to ensure all details are correct. You will receive a Medicare card in the mail confirming your enrollment.

Long-term care planning considerations

Planning for long-term nursing care is a crucial aspect of retirement preparation, as the vast majority of older adults will require such care. According to Boston College's Center for Retirement Research, 80% of older adults will likely need long-term care. Among that 80%, "needs vary dramatically in both intensity and duration. About 40% will have high-intensity needs for more than a year."[8] With the annual median cost for a semi-private nursing home room reaching $111,324 in 2024—and exceeding $150,000 a year in certain states and metropolitan areas—it is important to consider various strategies to manage these expenses.[9]

Regarding family dynamics, women are more likely to require care and need more years of paid care if paid care is used. Families frequently think wives will care for husbands since wives are statistically expected to have a longer life expectancy. However, very often Mom cannot lift Dad, or families do not have skilled nursing training in IVs, wound care, etc. So whether married or not, with or without kids, developing a comprehensive long-term care plan is essential for effectively managing long-term care needs. A well-structured care plan can help you:

- Avoid burdening others
- Ensure your family understands your wishes
- Have more control over your care

Start planning early to maximize your long-term care options:

- **Family and friends:** Will you want to move closer to your loved ones for support? If you prefer care at home, consider how you will remain socially connected.
- **Savings/expense reductions:** Consider redirecting savings from reduced expenses, like travel, to care needs.
- **Insurance options:** A long-term care insurance policy purchased around age 60 can offer a practical solution to manage the high costs of long-term care. By securing a policy for each spouse, you can protect your assets and ensure access to necessary services like nursing home care, assisted living and in-home care. This insurance can reduce out-of-pocket expenses, allow family members to be compensated for care, and is an important planning consideration for retirement.
- **Life Plan Communities:** These offer a range of services from independent living to more intensive care.
- **Home Equity:** Use equity from your home or sell secondary properties, keeping housing market fluctuations in mind.
- **VA Care for Veterans:** While military veterans can get long-term care through the Department of Veteran Affairs, check eligibility for services extending to veterans' spouses/widow(er)s.
- **Medicaid:** Medicaid is a joint federal and state program that provides health coverage to eligible low-income individuals and families. After exhausting assets , Medicaid can help cover long-term care costs. However, rules to qualify vary by state, and you generally must be low income with very few assets to qualify. Nearly all states have "lookback" periods of 5 years to assess if assets were given away for the purpose of qualifying for Medicaid, so consult with a qualified Medicaid expert in your state, even in New York and California where there are shorter lookback terms.

By incorporating these strategies, you can secure the resources and support needed to enjoy a fulfilling retirement. Early and thoughtful planning empowers you to make informed decisions that reflect your personal needs and preferences, in addition to pre-planning support system roles to pitch in with help driving to medical appointments, providing financial support, ordering grocery deliveries, etc.

[8] Center for Retirement Research at Boston College, "Do Older Adults Understand Healthcare Risks, and Do Advisors Help?" (January 22, 2025).
[9] CareScout, "Calculate the cost of long-term care near you."

Other considerations

Clients often ask if they should choose Part B or Part C Medicare Advantage. That decision can be influenced by case manager availability or an individual's in-network medical providers. "Snowbird" clients, those living in different parts of the country through the year, often prefer Original Medicare (Parts A and B) for the largest network coverage possible.

Note that if you develop a new illness while on Part C Medicare Advantage, you may not be able to return to the Original Medicare network for that now "pre-existing condition" during your next enrollment period. However, Part C Medicare Advantage can be appealing because it can cap some costs with an annual out-of-pocket maximum.

Since your choices can depend on health status, family history, financial means, etc., please contact a licensed health insurance broker for additional guidance on your selections.

Bottom line

Understanding the various health care options and their implications is crucial for making informed decisions about your health care coverage, ensuring you are well-prepared for your future needs.

A J.P. Morgan professional can help you integrate health care savings into your comprehensive wealth strategy in conjunction with guidance from your personal tax and legal advisors.

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