

Episode 220: Why Your Health Insurance Stops Working at 65

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SPEAKERS

Alex Murguia, Briana Corbin, Wade Pfau

Briana Corbin 00:00

The purpose of retire with style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to retirewithstyle.com/style, and sign up to take the industry's first financial personality tool for retirement planning.

Briana Corbin 00:41

Medicare is just confusing, and the enrollment process doesn't exactly simplify things. In this episode, Wade and Alex explain what happens when you turn 65 and how to get it right the first time.

Alex Murguia 00:54

Hey everyone, welcome to retire with style. I'm Alex, and I'm here with Wade Pfau, and we're going through certain areas of Wade's recently revised book. Wade, right?

Wade Pfau 01:09

That's right, yeah, third edition of retirement planning guidebook going through right now, chapter seven. And the key things people need to know related to well, health insurance, Medicare in particular, and just health budgeting in retirement.

Alex Murguia 01:24

And last week, we discussed the basics of Medicare and the pros and cons of the plans and the like, and just even the lexicon of it. You know why a plan? You know how parts and plans are different. Part A is different than plan A and, you know, plan, you know, plan Medigap and and the like, are similar things. And so today, what I want to what we wanted to go over, is just what does the enrollment process look like? Because that can also be daunting. You know, once you've made sense of everything, of the alphabet soup, what's a day in the life, okay, I'm turning 65 here we go.

Wade Pfau 02:04

Yeah, so a couple things. If you did enroll in Social Security early, you'll get signed up for Medicare automatically. But if you're delaying your Social Security benefits, we should point out you do need to make the effort to enroll in Medicare. You can do that online or in person at a social security office, or even, I think through the telephone, still is an option.

Alex Murguia 02:25

Describe that a bit, because that's also something that I think people lose sight of, that the Social Security combination with Medicare

Wade Pfau 02:35

on the enrollments, yes on the enrollment right? If, if you're already claiming Social Security, you'll be signed up for Medicare to start you off on the first day of the month that you turn 65 if you have not enrolled in Social Security. And so that's a whole separate topic, but we generally are suggesting most people may not want to be signed up for social security when they're 65 in that case, you do need to make the effort to enroll in Medicare. You won't be auto enrolled. And now it's still age 65 but the full retirement age for Social Security is almost to the point of being 67 so they're not the same age anymore. That is, I think, an area where people might make a mistake because they don't realize there's that difference in ages now

Alex Murguia 03:21

and and for the folks listening, I'd rather they hear from you when you say auto enroll. Does that mean their plan is being selected for them, or they're just eligible now to enroll,

Wade Pfau 03:31

they'll be Yeah. I mean, I guess auto enrolled in Original Medicare. So if you wanted to choose a Medicare Advantage plan, you better step up and let them know

Alex Murguia 03:43

that's what I'm getting at. Yes. Okay, all right, so enrollment process, take it away, my big, big guy, yes.

Wade Pfau 03:52

So Medicare, by law, becomes the primary payer once you become eligible, and we'll talk about exceptions, but and you become eligible either when you turn 65 and you can sign up in the three months before the month of your birthday, or the three months after your your 65th birthday. The couple of exceptions there, you can also become eligible for Medicare if you have end stage renal disease or after being on social security disability benefits for two years, or if you're on social security disability due to having ALS, then you instantly become eligible for Medicare. So then the important point here, and this is where people can make mistakes. By law, Medicare becomes the primary payer. If you have other health insurance by law, it becomes a secondary payer, and if you don't sign up for Medicare, often, secondary insurance won't pay anything if you don't have primary insurance. Explain that again, basically, you're creating a huge risk for yourself of facing the full out of pocket costs of any health care event if you are not. Signing up for Medicare, but you're facing a situation where, by law, Medicare is your primary payer. Now, if you're still working past 65 we got to kind of dissect this a little bit, because here's where the conditions, if you meet these conditions, you don't have to sign up for Medicare. Your existing coverage can be primary payer, but it's the only way to have primary coverage outside of Medicare is if you or a spouse is actively working at a company with 20 plus

employees and receiving coverage through that company or Union's group health insurance plan that remains, by law, as the primary payer, and so you have to be actively employed with the company, and you have to be using that company's health insurance. And that's it for having primary insurance after reaching age 65 now there's one exception to that, and that's if you do have retiree health insurance, you work for the federal government, and you have the Federal Employee Health Benefits Program, the FE HB, that's the one exception, where that can serve as a primary payer for your health coverage as well. You can still sign up for Medicare if you'd like, but the FE HB is the one exception. But what that really means is we should list off all these other things where you may think you have health insurance, but by law, it's no longer a primary payer. Okay, fire away. Okay. So maybe you're covered by an employer health insurance plan, but that employer has less than 20 employees, then it's no longer the primary payer once you reach 65 if you're continuing to work, but you're covered through the Affordable Care Act. So you get a health health insurance through the Affordable Care Act. Those are no longer going to be primary payers. Even though you're still working once you reach 65

Alex Murguia 06:53

and you frame by law, they're not primary payers. What? What does by law? What do you mean by by law? Like I in your words,

Wade Pfau 07:03

well, that these other types of insurance just aren't going to cover you any there's they become secondary so they secondary insurance will only potentially pay some of the bills left over after the primary insurer gets done. So if there is no primary insurer, then the secondary insurance may not pay anything.

Alex Murguia 07:23

So, so I wanted to, I wanted to be clear. I just didn't think we were clear. So effectively, you're, you're 65 you didn't sign up for Medicare, Medicare, and you thinking, Oh, but I have insurance, and you're listing out, these are the insurance types that are secondary now, because you're not eligible for Medicare, and because you didn't sign up for Medicare, these insurance companies can come back to you and say, Hey, by law, I don't need to pay this because I'm the secondary on this.

Wade Pfau 07:49

Right, right, absolutely clear. Yeah, no one's required to sign up for Medicare, but you're creating a huge risk not having primary health insurance in the United States. So that's where it's highly suggested,

Alex Murguia 08:06

yeah, by law doesn't mean that you're required by law to do this. The by law means the insurance company, by law, isn't required to be your primary if you're Medicare eligible,

Wade Pfau 08:16

right? Which means they won't necessarily have to pay anything

Alex Murguia 08:21

again, just wanting to be for avoidance of that and for an abundance of clarity, point

Wade Pfau 08:27

that out. So other things, you may be retired, but you receive health insurance through a previous employer. So retiree health insurance program that that could work as secondary coverage. So you may not need a supplement, but it's not the primary payer. And again, the only exception is that Federal Employee Health Benefits Program, if you're using something like one of the Health Share plans that are, they're not technically insurance, but they behave in that manner. Often run through religious organizations. They're not primary payers. There are, there is a version of Health Share that may work for secondary coverage to replace a supplement, but it's not going to be a primary payer. If you're receiving health insurance as a veterans benefit or through the military's TRICARE for Life program, those are not going to be primary payers anymore. If you're using Cobra to extend an employer health insurance for that period after you've left the employer that could fill a gap until you reach Medicare eligibility, but it's no longer a primary payer at that point. And then also, if you're receiving coverage through Medicaid, that's no longer a primary payer. And so that's where people can make a huge mistake if they just assume they're covered, and they have health insurance in one of these other ways, and they no longer have primary health insurance.

Alex Murguia 09:50

So, I mean, this goes back to cost. Then you know if, obviously, you don't want this to happen, but even if you have. Medicare and the like. And you're doing a financial plan, and you're trying to budget for this and the like, what numbers are we talking about if someone's doing a financial plan that they should put in? And let's assume they're, they're stacked with the proper insurance, even with the insurance, what? What would they be looking at?

Wade Pfau 10:19

Yeah, yeah. So there's various estimates out there, and like when we do the retirement income challenge, we like to use the funded ratio, where you put in annual expenses for health care, which are going to vary quite a bit person to person. And Vanguard did a really interesting study where they look at health care expenses and how that varies by choice of supplement, by where you live, and the cost of living in that area, and also based on whether you're a high utilization healthcare user, you visit doctors more frequently or less frequently, or you have certain chronic conditions. But then the number that probably gets the most media attention would be fidelity. Every year does a retiree health cost estimate, and in the most recent 2026 report, they're saying that the average couple at age 65 would need to set aside, this is the present value, the \$375,000 to cover medical expense, medical spending throughout their retirement. And that does not include the long term care. That's simply for healthcare expenses. And then that's coming from the idea that per person, they're looking at spending at around 64 to \$6,500 a year. 64 to \$6,500

Alex Murguia 11:31

a year per person. Does fidelity assume even even spending, or is it like how? You know, we've talked about a lot where you can do that as an average, but the reality is, it's going to be a lot more towards the end of your life spending, if you will.

Wade Pfau 11:48

The the fidelity study assumes you use Original Medicare, but you do not get a supplement. So yes, the out of pocket spending is going to grow more dramatically over time as you face more out of pocket costs.

Alex Murguia 12:01

So if by reading your book and you learn the ins and outs of the supplements, if you will, the medigaps, or even getting a good Medicare Advantage plan, you know, if you're wise about the type of plan that you choose relative to your own personal situation, that can knock off some numbers, some dollars off of that, correct?

Wade Pfau 12:22

Yeah, that's something that the Vanguard study looks at, where, if you're paying for the comprehensive supplement, that's going to increase your costs on average. But in those cases where you'd have a really high cost because you have significant health events that are expensive to pay for, that's where the insurance kicks in. That supplement really provides the value of lowering costs and that tail of potential expenses.

Alex Murguia 12:49

And I think this is I'm going to throw you a curve ball here. Not a curve ball, but I'm going a little off topic, but not too much. With regards to retirement income style awareness. We point out certain profiles, right? Somebody who's total return, someone who's risk wrap, someone who's income protection, and someone who's time segmentation, and that's based on, you know, the spectrum of where are you on probability versus safety first, and where are you on optionality and commitment orientation, and you've alluded to many times. Hey, you know, this can also apply to Medicare decision making. And just listening to you go into, you know, how the Vanguard did it. You know, what I started hearing was, oh, you can cut the tails here off of this thing. Whereas, yeah, it may increase the mean on a yearly basis, but you'll, you'll cut off the tails, which will help you overall, if, if that's your temperament, you want to maybe explain that in a manner that is cogent to this kind of decision making.

Briana Corbin 13:50

Have you signed up for the retirement income challenge yet? Well, there's still time. It kicks off next week, Monday, March 23 at noon Eastern, and we're filling up quickly over four days, Wade and Alex will help you better understand your retirement income strategy and where you stand right now, it's like a quick gut check for your plan. Oh, and did I mention it's also completely free. Spots are limited, so head over to retire with style. COMM, slash r i c, to join us that's retire with style.com/r I see. We'll see you there. Yeah.

Wade Pfau 14:24

With retirement income styles, one of the things we see is with retirement concerns. The two primary retirement concerns are, am I going to outlive my money? And then also, am I going to have liquidity for health shocks or long term care shocks? And if you're on the left hand side of the recent matrix, it just means you have more of a safety first orientation. You value having protections and commitments in place. That tends to also associate with a true liquidity mindset, where you don't just think about you have a pot of liquid assets that you'll use whenever you have some expense. You. Like to earmark different assets for different purposes, and that sort of mindset will make you much more open to I'm worried I won't have liquidity for my health care shocks, but if I have Original Medicare with a comprehensive supplement, or if I have other retiree health insurance that plays the same role as a comprehensive supplement, I'm really reducing that exposure to the healthcare spending shock. I'm locking in this is how much I'm going to pay every year in premiums, and I don't have to worry as much about big out of pocket

expenses. Beyond that, that's probably going to be more comfortable having that Original Medicare with the comprehensive supplement for folks who are more safety first oriented, and then if you're more probability based oriented, you do have more of a true liquidity mind, or not true, you have a technical liquidity mindset, where you just value having a liquid brokerage account. And you might view the way to have the most funds in your brokerage account is that's where Medicare Advantage might appeal more, because it has less premiums, and you'll just manage out of pocket spending as needed over time, but you're more confident that you'll be able to fund any out of pocket spending through the portfolio because you don't you're not as concerned about having liquidity for health related shocks.

Alex Murguia 16:18

No, no, I agree. Wade, and with regards to that, you know, I'm also thinking our listeners, let's say they're on the younger side, and they're a few years from from needing to make this decision, and you're talking about the total number being \$350,000 what are some ways that they can maybe, in a planning standpoint, start, start saving up for that, in in in certain vehicles. And I'm thinking, HSA, obviously, you know, what will you be your thoughts in terms of that? Because I think it's very realistic. And this is where HSAs, I mean, they're getting hotter and hotter from the standpoint of being in the people's mind right now something to do, but the HSA, my take is the HSA presents a great vehicle for someone in the 30s, 40s, even 50s, to start saving up. Because you don't need that account to be \$5 million when you retire. But if you can get it to be in the this, say, the 200 to \$400,000 range, that's a huge, huge benefit. That's my take your thoughts on that.

Wade Pfau 17:27

Fair enough. You know, if you have an eligible, high deductible health insurance policy, you're allowed to make those annual contributions to the HSA they and that's health savings account, and they give you the triple whammy of tax deduction on the contributions. It's an above the line deduction, just like a if you get deductible IRA contributions or 401 K contributions, you get that above the line tax deduction, reducing your adjusted gross income. You get tax deferral for the account, and then if you're taking distributions to pay for qualified medical expenses, that comes out tax free, just like with a Roth, does not enter your adjusted gross income. So that can be a very powerful way to have some funds available to cover health related spending in retirement. And yeah, I mean, realistically, if you're a big saver, you could potentially have an HSA by the time you get to retirement, especially if you're getting HSAs may not have been around long enough with high enough contribution limits for folks who may already be close to retirement, but for younger people, the annual contribution limits now are such that you could easily have enough saved in your HSA to fund health expenses in retirement.

Alex Murguia 18:38

Oh, 100% and again, you can say, Oh, but I got a Roth for that, or I have a regular account for that. And yeah, you can, but don't discount the triple Ramani, which is pre tax money going in and tax free coming out, and then compounds tax free. It doesn't get better than that. And so that one you want to, you want to fund with extreme prejudice, yeah,

Wade Pfau 19:00

and it gives you a way to get those extra tax advantages. It's only downside is it's not a good asset to leave as a legacy to anyone other than your spouse, because with inherited IRAs you

get a 10 year window to spend them down. With an inherited HSA to anyone other than your spouse, they get a one year window to spend it down, and it's all taxable.

Alex Murguia 19:22

It's an HSA, you're doing it for health reasons. So you know, if you don't use it, fine, but you had it there, and while you were alive, it was serving its purpose, at least from a mental anxiety standpoint. And you're talking the limit is, I believe, 8500 or something like that, for families.

Wade Pfau 19:39

Yeah, a little higher, but somewhere in that ballpark for families now, yeah,

Alex Murguia 19:44

okay, and I got us off topic with that, just because I just wanted to make sure for our younger listeners, listen HSA is the way to go. But take us back to again the day in the life of an enrollment process. What do they need to do? Do they need to call up social security office? Do they need, do they get something in the mail? What have. And terms of you

Wade Pfau 20:01

should, yeah, you should get something in the mail, but you can go to medicare.gov, to get more information. There's always discussion about changes, but and so I don't know if this has changed. I'm pretty sure you can still just enroll online. You don't have to go in person, although I'm not sure exactly how that all played out. With some of that conversation from last year about changing policies, I think for the most part, you can still enroll in line otherwise, and if you do want to, if you want more help, too, there's all kinds of volunteer providers, 800 numbers you can call for more information, and you can call the Medicare offices with an 800 number to get more information about your options and also to ask how you can get enrolled. Okay, tell that what that phone number is, if you give me a moment here, sure, you go through your book. Yeah, it's in the book. Getting help some Medicare personnel are available 24 hours a day by phone or counseling, and that phone number is 1-800-633-4227,

Wade Pfau 21:10

you can also talk to knowledgeable volunteers through the Medicare Rights Center at medicare rights.org or your state's State Health Insurance Assistance Program, And you can find the contact information for your state at ship to center.org, and that's S, H, I, P, T, A, center, the American spelling, c, e n t, e r t. Trevor would get caught up there with his Canadian spelling.org,

Alex Murguia 21:35

all right, and then Wade just something that it could cause some confusion. It's based on your age. But why is it that in a certain time of the season you see so many Medicare Advantage ads?

Wade Pfau 21:49

Yeah, because every year you can make changes. So when you become eligible, that's your initial enrollment period. There. I have a table in the book about how many different enrollment periods. So with Medicare, there is 1-234-567-8910, different possible enrollment windows, and one of those is every year from October 15 to December 7. For those who are already using Medicare, you can make changes. You can choose a different Part D plan for prescription

drugs, like we were talking about earlier. You can if you're using Medicare Advantage, you can switch back to Original Medicare. If you're using Original Medicare, you can switch to Medicare Advantage. You could switch between different Medicare Advantage plans. You've got a lot of flexibility to make those changes every year, with the one caveat being, if you've got a good supplement, it would be risky to give it up, because you may not qualify through the underwriting to get that same supplement again. Okay, so that that's and that's when all the commercials are, because they're it's usually the Medicare Advantage Plans trying to get you to switch over to their from, why don't you

Alex Murguia 22:55

see as many commercials in the in the nine other windows?

Wade Pfau 23:00

Well, there is no the nine other windows are more ongoing about they're different for everybody. It's when you have your initial enrollment window, or when you have some trigger for a special enrollment period, which could be if you were still working and you leave work, or if that health insurance coverage ends, or if you had a Medicare Advantage plan that goes out of business mid year, or something like that, yeah.

Alex Murguia 23:21

So there's very there's a bunch of idiosyncratic windows that are specific to you, but the sort of the land grab for insurance companies, for lack of a better word, happen between October and December, right?

Wade Pfau 23:37

Okay, all those commercials go away.

Alex Murguia 23:40

That's why they wheel out Joe Namath to talk about Medicare Advantage, or whatever it is.

Wade Pfau 23:46

Yeah, he's one of them. And also, JJ from good times, really dynamite. Yeah, he does Medicare Advantage commercials. Who else?

Alex Murguia 23:56

I don't know. I don't watch TV. Wait, I just read. I don't know you. You're watching scholar, yes, yes, and a gentleman, all right, that's anything you want to cover. You mentioned the potential, like changes in government, laws and things like that. Do you want to get into that now? Or do you want to save that for another time.

Wade Pfau 24:22

Well, if you're teasing about the Affordable Care Act subsidies, that's probably a different topic, because it's really a tax planning Medicare.

Alex Murguia 24:32

No, I was teasing, but we can do it later. But we got enough. We got

Wade Pfau 24:37

the highlight is with tax planning for retirement, if you're still getting health insurance through the Affordable Care Act, any subsidy that you're eligible for now goes away as soon as you're \$1 above 400% of your federal poverty line, which, if you're a two person household in the continental US, is \$84,600 that's the 400% of the federal poverty line. Yeah. So \$1 above that, you can lose more than \$20,000 of subsidies, so it's something to be very careful about. But yeah, that's really a whole different All

Alex Murguia 25:10

right, we'll get into that another time. All right, everyone. So the last two episodes, we've covered the ins and outs of Medicare Parts and plans, and in this one, we discussed the enrollment process and how that works and things to keep an eye on. Keep an eye out for anything else.

Wade Pfau 25:28

Wade, I think we covered quite a bit. So all right, let people with things to chew on.

Alex Murguia 25:35

Yeah, and all of those, where can they find out more? If people wanted to really dig, dig a little deeper.

Wade Pfau 25:41

Oh, yeah, everything we talked about is covered in chapter seven of the retirement planning guidebook, the third edition of which is now available. And if you just go to books to read.com/retirement you'll be able to find your preferred retailer, whether it's Amazon or bookshop.org for the independent bookstores, Barnes and Noble, they're they're all available.

Alex Murguia 26:04

And in the irony of all ironies, the episode that we devote, the two episodes we devote to Medicare and health related items, Wade has a bad head cold, wouldn't you just know it? Huh? Thank you for powering through, Wade.

Wade Pfau 26:18

You're welcome, Alex, and thanks everyone. All right,

Alex Murguia 26:20

everyone see you next week on retire with style.

Briana Corbin 26:24

Wade and Alex are both principals of McLean Asset Management and retirement researcher. Both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general informational and educational purposes only, and are not intended to provide specific advice or recommendations for any individual or on any specific securities to determine which investments may be appropriate for you. Consult your financial advisor. All investing comes with the risk, including Risk of Loss past performance does not guarantee future results.