

Pitfalls to Avoid When Switching to Medicare

Transitioning to Medicare from your employer's health insurance presents some complex challenges – and missteps can result in costly premium penalties and coverage gaps. Consumer experts who provide Medicare enrollment assistance say employers don't always provide the right answers.

Here are three pitfalls to avoid when moving from your employer's plan to Medicare.

Missing the initial enrollment deadline

Medicare requires that you sign up in a seven-month window before and after your 65th birthday, unless you have employer coverage through active employment of your own or a spouse's elsewhere.

Employer coverage is primary if you're still actively working for a company with more than 20 employees at age 65; in that circumstance, you want to at least enroll in Part A, since no premium is charged; depending on what your employer provides, you can decide about signing up for Part B or Part D (prescription drugs).

One caveat: People enrolled in a health savings account should proceed with caution because they cannot make HAS contributions once they are enrolled in Medicare.

If you work for an employer with 20 or fewer workers, Medicare must provide primary coverage when you turn 65.

Sticking with an employer's retiree coverage

Even if your former employer provides some level of retiree health benefit, it's important to sign up for Medicare once you reach age 65 to avoid penalties and coverage gaps. Employer-provided benefits then provide a secondary layer of coverage, and some employers provide a complimentary drug benefit

Laid off workers who have COBRA health insurance also need to navigate carefully when they turn 65. Signing up for Medicare at that point is critical, because COBRA coverage isn't considered primary "creditable" coverage under Medicare's rules. COBRA coverage ends when you sign up for Medicare, although it's possible to keep COBRA coverage in some circumstances for services doesn't cover, such as dental care. Your spouse or dependents may still be able to have COBRA coverage even if you don't sign up for it.

Letting spouses drive the plan

People who retire at 65 or later but have a spouse or other dependents who are covered by their workplace plan shouldn't let that guide their planning. "That person needs to sign up for Medicare Parts A and B right away," says Paula Muschler, operations manager of the Allsup Medicare Advisor, a fee-based Medicare plan selection service. "That way, your employer coverage can become secondary for you, and it can be primary for your dependents."

Key Steps

When transitioning from employer-sponsored health insurance to Medicare, don't miss the initial enrollment deadline. Unless you have employee coverage through your own active employment or your spouse, Medicare requires that you sign up in a seven month window before and after your 65th birthday.

Although your former employer provides some retiree health benefits, you must sign up for Medicare at the age of 65 to avoid penalties and coverage gaps. Employer provided benefits then act as extra coverage, and some employers provide a complementary drug benefit.

If you retire at age 65 or later but have a spouse who is covered by your workplace plan, you should still sign up for Medicare Parts A and B.