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YOUR MONTHLY GUIDE TO STRATEGIES FOR MAXIMIZING YOUR WEALTH AT MICROSOFT

How to Navigate Early Retirement Health Insurance:

Strategies for Microsoft Professionals Retiring Before Medicare Age 65

After years of assisting professionals in achieving financial independence, retirement health insurance remains one of the most common concerns we hear from individuals contemplating the leap to retirement. Many Microsoft employees aim for early retirement around age 55, leveraging their 15 years of consecutive full-time service and the continued vesting of outstanding stock even after leaving the company. However, transitioning from active employment introduces complexities, particularly in managing health insurance costs. The good news is there are strategies you can employ to manage this hurdle.

The Challenge: Covering the Health Insurance Gap Years

Upon leaving Microsoft, you are entitled to maintain your existing health insurance under COBRA for 18 months, though at your own expense. While COBRA is more costly than the subsidized rates enjoyed during employment, it offers continuity of coverage and can be a manageable solution during this transitional period.

Once you reach age 65, you become eligible for Medicare, which provides comprehensive coverage at a reasonable cost. The primary challenge is bridging the gap between the end of COBRA coverage and the commencement of Medicare.

Our Playbook to Manage Retirement Health Insurance Costs

Fortunately, there are options to cover this period until age 65 when Medicare becomes available. First and foremost, if your spouse is still working and has insurance coverage, it is prudent to review the spousal coverage options. Likewise, if you take a semi-retirement role with another company, it is worthwhile to inquire about whether they will provide you with insurance. If you decide to start your own consulting or other business, you can explore business health insurance options.

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For those where the above options do not apply, you can utilize the Affordable Care Act (ACA) Insurance Exchange. Established in 2014, this program offers state-coordinated exchanges where you can obtain health insurance coverage at a potentially more affordable price. In Washington state, the health insurance exchange is called Washington Health Plan Finder. This platform includes major providers like Regence, Premera, and Kaiser.

[1]

The ACA provides a sliding scale subsidy that adjusts based on your income, meaning lower reported income can lead to significant premium reductions. This results in health insurance potentially being much more affordable at moderate income levels.

Income Planning to Reduce Your Premiums

The ACA defines income based on your gross income reported on your tax return. Strategic financial planning is crucial here. By managing your taxable income carefully during early retirement, you can significantly lower your health insurance costs. For many, this can translate to savings of over $100,000 during those early retirement years!

Building up your tax-advantaged accounts can go a long way toward giving you the flexibility to keep your health insurance premiums manageable in retirement. Maximizing your contributions to Roth accounts can be particularly beneficial. Withdrawals from these accounts during retirement do not count as taxable income, thus not affecting your ACA health insurance premiums. By strategically withdrawing from these accounts, you can maintain a lower taxable income to help keep your insurance costs lower.

Preparing for Legislative Changes

It's important to note that the ACA's subsidy structure, expanded during the COVID-19 pandemic, is set to remain favorable through 2025. However, there is a risk that these provisions could revert to stricter pre-pandemic rules, making strategic income planning even more crucial. This is something that we are actively monitoring to help you plan accordingly.

Planning for a Smooth Retirement = Avoiding the Icebergs

As you navigate toward retirement, it’s crucial to be aware of potential icebergs lurking below the surface, which can severely disrupt your journey. Health insurance is one such iceberg—an essential element that is frequently underestimated until it becomes a problem. Just like an iceberg, the majority of its risk is hidden beneath the surface until retirement in the form of unexpected costs and coverage gaps.

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To avoid collision with this retirement iceberg, strategic planning is critical. Managing your health insurance costs effectively during the gap years between leaving your employer and becoming eligible for Medicare is a crucial component of this strategy. By treating health insurance with the same level of attention as your investment and tax savings strategies, you can help safeguard your retirement from one of the more significant, yet navigable, risks.

Don't wait to plan your financial future! **Schedule a strategy session** with our team today to review your retirement strategy.

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