# Ep #4: Looking at Insurance in Retirement

## Full Episode Transcript

### With Your Hosts

**Micah Shilanski and Tammy Flanagan**

You can spend. You can save. What is the right thing to do? Federal benefits, thrifts, savings plans, too. You can save your own way, with help from Micah and Tammy. You can save your own way, save your own way…

Micah Shilanski: Well, welcome back everyone to our fourth out of five part series about federal retirement. I'm your cohost Micah Shilanski. And with me is the amazing Tammy Flanagan. Tammy, how you doing today?

Tammy Flanagan: Hi, Micah. Good to be here again for another fun episode of our Benefits Podcast that I hope is interesting for employees who are preparing for retirement, or those who're just thinking about retirement from one end or the other, even if you've recently retired, some of this, they really come in as useful information.

Micah Shilanski: Yeah. And we really appreciate our listeners tuning in, or are watching this as we go through, especially, as we geek out about this stuff. And I will say that lovingly, right? Because we do get excited about talking about these different things. And Tammy and I can have geek out moments about different aspects of policies, and benefits, and all of these changes. So, hopefully, we're going to dissect that down into a few action items, which are so important as you're getting ready to retire, because it's not just about having the knowledge, it's about implementing that information, right? Having the knowledge, understanding your benefits, and now implementing it, so you can have a successful retirement.

We talked before, parts of the series that we did, we talked about your creditable service, and how important that is when you're planning retirement. We went through

your agency estimate. We spent 30 minutes just talking about just the agency estimate, and some really important things that you need to make sure you're looking at in there to make sure it's accurate information. And the last one we did, we talked about other income, whether it's social security, TSP, military pensions, other pension income, et cetera, and how that fits into the gap. And so, the next big piece of this is our risk management section, which is talking about insurance, right?

We want to go over health insurance. We're going to talk about Medicare, we're going to talk about life insurance. We're going to talk about longterm care insurance, and all that. And we only have like 25 more minutes to do it. So, without further ado, we're going to jump in. And we're going to hit the highlights in all of these things. But like always, if you need more information about this, jump on our website, plan-your-federal-retirement.com/4. And we're going to have this broken out a little bit more, and some more information on Tammy and I, and more information on each of these topics.

With that being said, Tammy, let's go ahead and kick this off. So, let's start, what I always call the best benefit that you have as a federal employee, right? Hands down, and I get to see this as the outside looking in with my green colored glasses on, a little bit envious, your health insurance, that FEHB, Federal Employee Health Benefits is just an amazing package that you're able to not only have now, but to keep in retirement time.

Tammy Flanagan: Yeah, Micah, I think federal employees don't really understand the full value of that benefit because they've never had to shop for insurance on the affordable care market, because I know people who are paying literally

thousands of dollars a month in premiums, and have upwards of $10,000 a year in deductibles. That never happens in the federal plan. The highest price plan might be six or $700 a month. And the deductibles are never over a certain couple of thousand for a high deductible plan, but really reasonable. The government continues to pay 75% or upwards of 75% of the premium, even for retirement. And it's a lifelong coverage for you, and your family members, your spouse and your dependent children can continue coverage even after you retire.

Micah Shilanski: Yeah. I think this is really, really important. And what Tammy's talking about isn't just theoretical information about knowing people, I'll jump out there, me, right? I am on the healthcare exchange when the affordable healthcare act came out, our group policy had to go away, and it went under that. And I pay thousands of dollars a month, and my deductibles are huge. That's going to be there. So, again, keeping your insurance in retirement is really important. So, Tammy, why don't we start off with that before we go through some other things. And I guess they're twofold, what are the rules for our federal employees to keep health insurance into retirement? And number two, what are the rules for a spouse to maintain FEHB into retirement?

Tammy Flanagan: Yeah. So, for a federal employee to maintain health benefits, the first rule is you have to work long enough to retire. So, in other words, if you resign, even if you're eligible for a deferred retirement, you're not going to get to reinstate your health insurance if you left at age 45, and you had 20 years of service, you're going to collect a deferred benefit, but you're not going to reinstate the insurance. So, you have to work until you're at least, under FERS, we call it the minimum retirement age. And

you have to have at least 10 years of service to be able to maintain health benefits.

So, it doesn't matter if it's a reduced MRA plus 10, or whether it's a full career of service, as long as you're eligible for what we call an immediate benefit, that's a retirement that starts within 31 days after you leave the government. So, that's rule number one, immediate retirement. Second rule is you have to meet the five-year test. The famous five-year test that often gets confused. Even agency reps, not HR reps sometimes get confused about what this five-year test really means. Think of it in terms of the government wants to make sure that as a healthy employee, you've committed to FEHB, and they still have to cover you throughout the rest of your life, that they're willing to do that.

So, it doesn't mean you have to be paying for FEHB for five years, you could be covered under your spouse's federal health benefit plan. So, if you and your spouse are both federal employees, you're both considered eligible. You both have five years of coverage. Doesn't matter who's paying the premiums. It also could be five years of coverage if you include time under TRICARE or CHAMPUS, the military healthcare program. The only rule there is that you have to jump into the federal civilian plan, into FEHB at least the open season prior to retirement because that federal plan has to be in effect on the date of retirement in order to count your military health coverage as part of the five years.

Those are two places where I see a lot of confusion, when there's coverage under a federal spouse, or when there's coverage under military service and the responsibility to plan into retirement. So, that's the rule for

employees. For a spouse, as long as you're married, your spouse and family plan … you can have that in retirement. Your spouse does not need five years of coverage. So, if they're working in the private sector, and you have good health insurance, you can pick them up later, as long as you're still alive.

Micah Shilanski: I was going to say there's a catch there, right? You still have to be alive to do it.

Tammy Flanagan: That's right. So, in order for a surviving spouse to carry health benefits from your coverage, number one, they have to be covered on the date of your death. So, if you didn't get a chance to pick them up yet, they're not going to get to enroll as a surviving spouse. And the second rule is they have to be entitled to a survivor's benefit. So, if an employee dies in service, not a problem because your spouse is always going to be entitled to either a lump sum death benefit, or a survivor's annuity.

But for retirees, when you move into retirement, and you're electing a survivor benefit for your spouse, if you and your spouse agreed to no survivor benefit, keep in mind, you're also not leaving them the right to carry health benefits if you should die first. So, no survivor benefit to a non-federal spouse means no money, and no health insurance. So, that's a real important rule to remember.

Micah Shilanski: Yeah. And I'm hard pressed to think of any time that I've ever recommended a client not to leave a survivor benefit in this case. In fact, I probably go hands down and say, I always recommend it, right? You should always leave a survivor benefit to maintain that health insurance, because the value that it is that it's going to be there, it's really worth a lot.

Tammy Flanagan: Exactly. Yeah. And I guess, one last thing before we leave, health benefits is for those people who are living in retirement, and they have military health insurance like TRICARE or TRICARE For Life, or some people decide when they're 65 to go under a Medicare Part C plan, or Medicare Advantage Plan. In those two circumstances, you can suspend your federal health insurance. So, it's still available. It's still hanging in there, got it in your back pocket. And so, while you're using the Medicare Advantage Plan, or while you're using TRICARE For Life with original Medicare, you don't have to pay those premiums. You're not covered, but if something changes down the road, you still have the option during the next open season to cancel that suspension, and go back in the federal plan.

So, for those who choose those two options, whether it's TRICARE or Medicare Advantage. And Medicare Advantage, we could spend an hour on. So, if you want more about that, we'll have to do that at another time. But those are two exceptions. And I guess, a third exception, this is also probably fairly rare is if you serve in the Peace Corps, because I know a lot of retirees want adventure, and Peace Corps can be a great adventure. So, while you're serving in the Peace Corps, they cover you under their health plan. You can suspend your federal plan for those two years of service, or however long you serve.

Micah Shilanski: Now, I want to bring up two points that Tammy brought up real quick to dive into. Just pay attention to the terminology that she used. Number one, she said suspend, right? We are suspending your health insurance. We are not canceling your health insurance. And while we're talking about a little bit of differences here, sometimes wording is really, really important. So,

making sure you understand these rules, making sure you know how it works before you're getting out of FEHB or suspending it, is really, really important. A second thing, a little planning point that you talked about was for a federal employee, and their spouses outs, maybe works in the private sector, or maybe works at a state government, and has really good health insurance, what I see often is that maybe the federal employee has self only. And then the other spouse has a family coverage that's going to be there to cover them.

One of the things that, Tammy, as you brought up is, we run a risk of passing away. If the federal employee passes away, their health insurance dies with them because the spouse is not in the FEHB plan. So, this may be something you want to consider. And this may be something that you want to have a family plan in order to make sure your spouses cover, or self plus one, depending on your age. But maybe you make it a high deductible plan. Maybe you make it something that's not as expensive on a monthly basis, but at least gets your spouse covered in that plan. So, God forbid, if something happens to you, they can maintain FEHB going forward. So, again, planning points, understanding your benefits, and taking action on are really important.

Tammy Flanagan: That's why it's so nice to have 30 different plans to choose from. Even though it can be paralysis by too much analysis, but knowing that you can pick a plan like GEHA Elevate, it's a very low cost plan. It would serve the purpose of filling in that five-year gap, or there's plans that work well with Medicare. So, keep an open mind when it comes to open season, because even in retirement, there are times when your family situation might change, your age is going up. So, there are times in your life when a

different health plan is going to serve you better than the one that you have currently. So, always look at open season as an opportunity.

Micah Shilanski: So, Tammy, and I know when we get closer to open season, we'll probably do a special pod just on open season, and great benefits that are coming out.

Tammy Flanagan: Yeah, several.

Micah Shilanski: Yeah. Maybe several is a good idea. What about FSAs? What about those flexible savings accounts that are out there? So, it's a great tool that our federal employees can use, right? They can put money, save it pretax. They can use it for qualified medical expenses, tax-free, in order to help pay for those. But what happens to those monies when you move into retirement?

Tammy Flanagan: Yeah, unfortunately, that's a benefit only for active employees. So, remember that when you plan your retirement, plan to spend those dollars prior to retirement. So, if you're going to leave, let's say you left federal service mid year, maybe end of June, and you'd allotted maybe the maximum money, it's 2,600 or 2,650 for the year, which was about $100 a paycheck. So, let's say you're putting in $100 a paycheck, and you need two crowns and a root canal in May, you can get those done. You can get reimbursed. And then when you retire the end of June, you've only contributed 1,300. They're not going to come back to ask you for the other money.

So, that's the only loophole I can tell you in the whole federal benefit program is that you can use that money up front for healthcare, and not have to pay it back if you should separate prior to the end of that year. But on the other hand, let's say you get to the end of June and

you've got your 1,300 in there, and we've had this pandemic, and not had a chance to go to the dentist, they're not going to let you carry that over into your retirement years, and spend it. It's going to be forfeited. So, make an effort to really plan ahead on the year that you retire as to how you're going to utilize that flexible spending account money.

Micah Shilanski: I like it. Now, there's a little bit, we'll touch on this, then I want to jump into HSAs, health savings accounts, which work a little bit different in retirement. But FSAs, we still get some questions on this. It used to be 100% use or lose every single year, but they've made a change in that a few years ago, right?

Tammy Flanagan: Yeah. You can roll over up to $500 a year. So, it's a very small amount but you can have leftover from this year. But as long as you continue to be employed next year, you can keep that $500, and add to it with next year's contribution. So, you do have that option as long as you contribute. So, if you stop contributing you forfeit that 500.

Micah Shilanski: And stop contributing could mean retirement, right? So, again, only for active federal employees that you get this benefit. But if we change gears a little bit, there's another plan out there that I'm a huge fan of. And I think it'll make sense for a lot of people. And it's a high deductible healthcare plan. But one of the really great parts about this is it opens up an HSA, a health savings account. And the savings account is going to work different than a spending account. The FSA, flexible spending account, because in HSA, you actually keep into retirement. Right?

Tammy Flanagan: Right. And HSA goes hand in hand with a high deductible health plan. And I think they came up with the

wrong name for those health plans because nobody wants a high deductible health plan. But believe me, and believe Micah that these could be one of the best tax advantage savings plans around outside of your TSP. So, if you're someone who's looking for an additional tax shelter, this is an account that belongs to you. It's FDIC insured, the money that goes into your HSA account is going into a bank account. It's a specific health savings account is the name of it. So, you can't put it in your passbook savings account, but you can put it an HSA account.

And this is your money. So, the more you put in there, the more you accumulate. And that can stay in there the rest of your life. It even goes to your beneficiary if you die before you've had a chance to use the funds. So, it's something you and your spouse or your other family members can use, or qualified medical expenses, all on a tax-free basis. Tax-free money going in, it grows, it earns interest, and you take it out for qualified expenses.

Micah Shilanski: Now, one of the things that works really great, a nice planning point with these HSA accounts is, Tammy, as you said it opens up an account you can put money into, and now you can actually link that. I'm pretty sure it's only with TD Ameritrade, and you can actually invest that money. Now, any time we get into investing, we have to be careful, right? We have to really remember our five-year investing rule that says, any money we put in the stock market, we shouldn't need in the next five years, 2008, '09, '10, '11, '12, '13. Right? When that stock market fell, it took a while to come back up.

However, the HSA allows you to put so much money into it, we've now started to see clients have enough money in

there to make sure their copays are in cash, their deductibles are in cash for the next few years. They can now take a portion of that money, especially, with our younger clients, and be able to invest that, and it's going to grow tax-free. So, it's another tool that's going to be out there that you can use for retirement. Of course, with investments. That means it goes up and down, right? So, we really have to be careful about this one. Tammy, go ahead.

Tammy Flanagan: I was going to say and your older clients too.

Micah Shilanski: Yes.

Tammy Flanagan: We have an HSA. And we've got $25,000 total in the HSA. We keep 6,000 in the cash side of it because that's going to meet our limits for each year for our deductibles. So, we really try right now because we're not quite Medicare age. So, we're trying now to just pay our out of pocket expenses with our taxable money. And we leave that money in the HSA account to grow tax-free. So, we're thinking later in life as healthcare needs increase, and we're much more on the fixed income, that that money is going to come in real handy for tax free withdrawals for big expenses that could come up. And then we can also use it to pay for longterm care insurance or Medicare premiums. So, it had that advantage as well over the FSA, which cannot be used for that.

Micah Shilanski: So, tons of huge benefits you should absolutely be looking at with health savings accounts, a couple of things to keep in mind while you can, keep it into retirement, you must be in a high deductible plan. So, that means, and we're going to talk about this in just a second, at 65 years young, if you go on Medicare, you're not in a high deductible plan anymore. So, just the forcing of turning

65, and being separated from the feds going under Medicare means you cannot contribute to your HSA. Now, you still get to keep the money. So, Tammy, in your example, if you got $25,000 in your HSA account, that is still your money, you can still choose what to do with it. You just can't make a future contribution.

Tammy Flanagan: Yeah. It's renamed as an HRA once that-

Micah Shilanski: It's a great point.

Tammy Flanagan: So, it will be now health reimbursement arrangement, but not a health savings account anymore.

Micah Shilanski: That's right. So yeah. Good things to think about. So, speaking of Medicare that's there, what happens when let's say we're separated from federal service, receiving our pension, we're under FEHB, we turned 65. Now, quick, little highlight, we're going to go through this really, really fast, but we will go through more information in future podcasts as we're dedicated to Medicare. So, we're just going to hit the highlights.

Tammy Flanagan: Yeah. This is a topic, like you said, we could spend two hours on coordination of Medicare with FEHB, but a couple of things to keep in mind, number one, is your federal health plans do not require you to have Medicare in order to cover you. So, in other words, like we have some of our CSRS folks who never qualified for social security retirement. They can just have FEHB for the rest of their life. They don't even have to enroll in Medicare Part A. However, I would recommend Part A, because you can grow for it. And you've already paid the tax during your working career. So, Part A is going to cover inpatient care. And it works hand in hand with your FEHB.

So, once you're retired and over 65, if you enroll in Medicare Part A, and there's no premium, Medicare Part A will cover your hospital room and board, your nursing fees, anything when the doctor says, "We're admitting you to the hospital." That's generally going to come under Part A. It can cover skilled nursing here. So, Part A pays for us whatever they didn't pay for Medicare, the balance goes to your FEHB plan. And nine times out of 10, you're going to find most FEHB plans will waive any inpatient deductible or copays. So, you have 100% coverage on hospital room and board.

Now, for skilled care, it's a limited period of time, no more than 100 days. Now, for Part B, that's the one that we could spend two hours on, because Medicare Part B right now costs $144 and 60 cents a month per person per month. And that's the base. So, if you're a higher income retiree, there's aunt IRMAA as you like to call her, the income-related Medicare adjustment amount. And that increased amount is based on income, total income. So, therefore, a lot of our federal retirees who have a pension, have TSP withdrawals, have social security benefits, their income and retirement then allows them to just pay that base amount. So, they have to pay an extra stipend, maybe $50 a month more, maybe $150 a month more, depending on how high their income is.

So, when you multiply that by a spouse times the other spouse, that can be quite a significant outlay of cash in addition to your federal health plan. So, that's where I think we need to stop right now because we can just go on and on about the benefits of having that joint coverage versus the risk and rewards of just keeping FEHB by itself. But it's a math problem. It's trying to figure out what you're going to spend out of pocket. What Medicare's

going to save you, what your standing at risk for if you don't take Medicare. There's really a lot there to cover. In fact, I counsel clients on just that one topic, and we'll spend two hours talking about it.

Micah Shilanski: So, I would say most of the time, so, a good planning point, right? Part A, I totally agree. We should absolutely do that. Most of my clients, about 99 plus percent go on Medicare Part B. We may look at a change, Tammy, as you're talking about through FEHB to get some better coverage or some more uniform coverage so to speak. The really thing I want to highlight on what you said though, is that additional premium that you might have to pay. I'm going to round, not only $144 a month per person for your Medicare premium, Medicare Part B, but if your income is high, and keep in mind, it's not really that high of a threshold that you have to hit, you could be paying more. So, again, what do we care about most in retirement? Our net retirement income. How much cashflow do you have coming in?

And this goes back I think to our second podcast that we talked about, which is we talked about that retirement income timeline. Really important to say, "All right, what's going to be coming in from my pension, my social security, and what reductions are going to be there?" And this could be a great example of your Medicare premium reducing that social security check that you have coming in. So, focusing on the net. I know it's slightly off topic, but I thought it applied there just a little bit.

Tammy Flanagan: Oh, that's important. That's becoming a bigger and bigger issue every year.

Micah Shilanski: Yep. Now Tammy, so, let's pivot off of Medicare just a little bit. And let's talk about vision and dental. So, this is

another great question that we get all the time. Can you maintain vision and dental into retirement?

So, we get the FEDVIP that's out there, right? So, you get vision and dental insurance that you can get. And you can maintain that into retirement, which is a really good deal that's there. And this is a question that I often get from a lot of my retirees, is that, does it make sense to maintain this? And I will say in the last, I don't know, five plus years, there've been a lot of improvements across the plant. I jokingly say ... Tammy, do you know which vision and dental plan most of my clients choose when they go into retirement?

Tammy Flanagan: No.

Micah Shilanski: Oh, no. The el México plan, right? They go south of the border, go to Costa Rica, go to Mexico, they get the vision and dental done. It's amazing how many people are going that direction, but you can maintain vision and dental. And it does pretty good in retirement time.

Tammy Flanagan: Yeah. We have both. We from time to time use a vision plan because we both wear glasses. And the dental plan helps us as well. It helps cover about half of expensive things like canals or crowns. So, when you're looking at a root canal or a crown costing upwards of 1,500 to $2,000 per tooth, you need some coverage to help offset that expense if you're not going to go south of the border to get it done. Yeah. So, I think it serves a place. And what I would say though, is look at your federal health plan first because sometimes they will give you some limited dental and vision benefits. The plan we're in right now has vision benefits. So, we don't necessarily need a separate vision plan. So, if you have

coverage under your health plan, that might be adequate for you.

Micah Shilanski: And my quick rule of thumb, and I wouldn't go solely based on this, but Tammy, I'd love to know your thoughts is assuming your health plan doesn't cover the vision and dental, I look at the vision and dental, let's just take dental. If you're going to go in every six months, and get a cleaning, and you're going to be proactive, and you're going to do that stuff, it almost makes dental insurance a no brainer for me. You're just paying for it monthly versus paying for it every time you go into the dentist, what are your thoughts?

Tammy Flanagan: Yeah, I agree. And if that's all that you need, and your teeth are pretty healthy, I would just do a basic dental plan, which can be very reasonably priced. But if you're aging, and your teeth are aging, I'm familiar with this at my age, you're going to find that you're going to need more expensive dental care in many cases. So, if that's true for you, I will look at the higher option dental plans because they'll have a much higher allowance. Some of your low option plans will say, you can only submit claims up to $2,500 a year, where some of the high option plans let you submit limitless. If you have $30,000 worth of dental needs, they can still cover up the 50 to 65% of that.

But you're going to pay a higher premium. So, depending on what the dentist says as far as how healthy your teeth are is going to help them determine whether a standard option or a higher option plan is going to serve you best.

Micah Shilanski: Tammy, this doesn't have to be a decision that our retirees make the date they retire, right?

Tammy Flanagan: That's right. It's not open all the time. It's every open season, federal employees and retirees can choose to enroll or choose to disenroll in the dental and vision plan. So, it's something you don't have to pass a five-year test. There's no government contribution to the premium. You're just paying a group savings rate. So, that's why the government's not as concerned whether you had it five years before or after it doesn't make any difference. You can drop in and drop out of those plans as you want.

Micah Shilanski: Yeah. Works really well. Okay. Let's make a little bit of transition from the health world. Let's talk about the life insurance side, the FEGLI Federal Employee Group Life Insurance. Overall, I mean, I think it's a nice benefit that the feds offer a group life plan that's going to be there, helps round out your benefits package. But one of the things that's really important to know about FEGLI, especially, what's different than your other benefits is that it's all based in age bands. And every five years that premium is going to go up. And it goes up fairly dramatically. It's pretty inexpensive when you're a younger federal employee, and first starting out, which is wonderful. But then as we get older, the odds of us passing away increases, therefore, the cost of insurance dramatically increases over time.

Tammy Flanagan: Right. The basic FEGLI, I like to separate that from the optional FEGLI. Because the basic FEGLI is something you're automatically enrolled in when you're hired. And if you didn't want the basic coverage, you'd have to physically drop it. You'd have to make in a motion to drop it. So, that covers that basic FEGLI. I recommend keeping that throughout your lifetime. There are so many nice little benefits. It has a accidental death and dismemberment clause. It has a living benefit if you

should be diagnosed with this terminal illness. It has some free coverage, once you retire with it, and you're over 65, you'll keep 25% of it for free. So, basic coverage, I would never recommend dropping down. I think it's a good deal. And the government does help pay for it.

Yeah. Like I said, there's some free, we call it funeral coverage, once you're over 65 and retired, that'll stay in that program even though it's so-called term life, and does not have cash value. But what you were talking about, Micah, is option B. Option B is the one I always say, watch out for option B because it starts out real innocent, like 2 cents per thousand, like you were saying, but before long we hit about age 50, and it starts escalating tremendously. So, you have to keep in mind that when you're younger is generally when you need the most insurance for most of us. If you're starting a family, if you're buying a house, and what if your untimely death happens at 35 years old, and you're leaving this young family with no income.

So, even if it's the spouse who stays at home, they need insurance too, but that's outside of FEGLI. Yeah. Option B can be a nice benefit younger in life but as you get older, it's really expensive. So, I would say, look around, shop around for option B coverage, and maybe compare that to return policy that's going to stay the same price for 20 or 30 years, and not escalate every five years. So, think in the long run, you'd be happy you did that.

Micah Shilanski: Yeah. And this is the same for retirees as well. I know we said younger employees, right? We're shopping around and it makes sense. But also just because you retire doesn't mean you do not have a life insurance need. Now, it also doesn't mean you have a life insurance need,

right? So, this is a really important thing that you have to look at, and evaluate any time you have a change of life, whether it's an inheritance, it's a birth, it's a death, a job status change, these are all really important things to step back and say, "Hey, do I have to have insurance?"

And I think this is the first big question about life insurance, do you actually need life insurance? Now, there's a lot of retirees that still need life insurance 15, 20 years into retirement. Because guess what? If a federal employee is going to get their pension, a supplement, social security, et cetera, well, if they die, all of those income goes away. The spouse maintains their social security benefit or the higher of the two, but they don't get all the same income. So, maybe there's a life insurance need, or maybe you've saved enough assets where there's not. So, this isn't a one size fits all that says when you retire, you don't only not have insurance.

I will say, Tammy, I agree 100%, once you hit about that 30 to 45 years age, I would definitely be shopping around to replace FEGLI. Generally, about 35, you can get it on the private sector for roughly the same price, but the cost is never going to increase. You can get a level policy, but generally, anything north of 40, if you're in good health, you can get a lot less expensive in the private sector.

Tammy Flanagan: Right. Yeah. And like you said, Micah, if the breadwinner or the federal spouse passes away, the surviving spouse may need that to supplement the survivor benefit, and the other social security as well. So, yeah, I agree that there could be a need to maintain some adequate life insurance. As I call it during the go-go years for the surviving spouse is if they have the money to

maintain their lifestyle, then they don't have to sell the house, and move in with the kids.

Micah Shilanski: And I jokingly say I really like life insurance not because I like people to have it, but I think it's a simple question. It's math. If you die, does your spouse, does your survivor have enough money to make sure they're taken care of? If the answer is yes, boom, you don't need life insurance, conversation ends. If the answer is no, now, we need life insurance. And we can mathematically fill that. And I like it because it's simple, versus our next topic we're going to move into really quickly, longterm care. And I don't find this quite as simple as determining, do we need life insurance or not?

Tammy Flanagan: Yeah. Longterm care, it's not a matter of when you're going to die, it's how long you'll live. And you're going to need this type of care that's not covered by insurance. So, your longterm care is whenever it goes from skilled care, to custodial care. So, as an example I like to use is let's say that we have a stroke. My neighbor had a stroke. So, she ended up in the hospital, the ambulance took her. She's in there for five days. The doctor says, "Okay, you're stabilized. You're not going to have another stroke. We're going to put you into rehab so that you can get your ways to live back. You might be paralyzed a little bit. You might have some speech problems." They're going to put you into skilled care. And Medicare is going to cover about three months of skilled care.

And your federal health plan may cover that as well. So, you may have 100% coverage for maybe 100 days. But after that, let's say you haven't fully recovered. You're in your late 80s, and you just can't really recover to that

same independent care that you had before. So, now you're either going to go home, and need someone to assist you with bathing or dressing, or you're going to stay there where no longer is skilled care, now it's considered custodial care. So, who's going to provide that care? Generally, it's a family member. They bring you home. Your spouse tries to take care of you as best they can.

But remember if you're 89, your spouse might be 87, so, that's going to be a big job for a spouse and also the children, or you might not have had children. So, we have to think in terms of, if we get to the point where we no longer are independent, we have some sense of dependency for those things that we hope we never need help with dressing, bathing, feeding, toileting, or if we get to the point that we are no longer safe to be by ourselves. So, that's when it comes from skilled care to longterm care. And it's either going to be a family member. It's either going to come out of our pocket, and we're going to pay for that help that we need, or we're going to have some type of insurance for it.

Micah Shilanski: No, I think this is a thing that everyone should have a longterm care plan. That doesn't mean you need a longterm care insurance. These can be different discussions that are there. As I'm talking with my clients and walking through this, I always say, "Look, we got to have a plan, right? So, what's going to happen?" And you had a couple of things that you can do. Number one, Tammy, as you said you could, right? Do nothing. Not the best plan, right? You could do absolutely nothing. Number two, you could save your own money to say, "All right, I'm going to put X amount of dollars away. I'm going to earmark X amount of my assets, and I'm going to save them for a longterm care event." There's some other lump

sum longterm care policies that are out there as well that you can put a couple hundred grand, and it'll double the money. Those may be an option, maybe not.

Or number three, you could go buy some type of insurance that's out there. And you could look at the longterm care thing. I think every federal employee before they separate from federal service should go look at the federal longterm care plan. That doesn't mean everyone should go buy it, but you should go look at it. It's a good plan that's in place. It's not perfect, but I also don't think there's any perfect longterm care insurance. So, it does a very good job. And also you can get it for more limited, oh, I should say, limited underwriting while you're employed versus when you retire. So, looking at that longterm care insurance is really important.

Tammy Flanagan: I just want to correct one thing you said, Micah, is they don't have limited underwriting anymore for employees. So, whether you're employed or retired, it's the same 40 some questions about your health, you don't have to go get a physical, but you will have to answer the long underwriting application. I also wanted to mention, it's not just you that's eligible for the federal longterm care. It's you and your spouse, your parents, your in-laws, and your children over age 18. So, it's all those family members are eligible. Even if you're not married, but you have a significant other, domestic partners are also eligible to get the federal plan under you.

So, they're all sold individually. So, when you buy longterm care insurance under the federal plan, you can't get a family policy that's going to be my policy, my spouse's policy, my mother's policy. We each pay based on the age we are when we sign up. And you were

saying, get it as an employee, because if you're younger and healthier, you're more likely to be able to afford it. You're more likely to be able to pass the underwriting. I bought mine when I was 47, and I'm so glad I did. I've had it for 15 years. And I just wrote it down, I'm paying $149 a month. I have $6,000 a month that I can use towards the cost of my care should I fall tomorrow and become independent or become dependent.

So, right now, it's valued at 6,000 a month times five years, so, that's over $300,000 worth of benefits. And I got, well, almost a 4%, every year, it goes up 4% with compound inflation. It covers in-home skilled care, in-home and facility benefits as well. And it's got a three month elimination. So, it's a really good policy, but I bought it at 47. If I was to buy that same policy today at age 62, I looked it up, and it was going to be, let's see, something like $333 a month. That'd be more than double if I had waited that 15 years to buy it. Of course, I wouldn't have been paying premiums all those years, but who knows if I'd even qualify for it now?

Micah Shilanski: And one of the things too, and thank you for correcting my speech in here, when I say limited underwriting compared to private plans. Now, I do think you should go out and look at private plans that are going to be out there because one of the nice parts about the federal one, as you said, there's no physical. Versus if you go out on the private sector, you're going to have full underwriting that's going to be there. So, they're going to be pulling medical records.

They're going to be doing a physical, and these things. Now, I think if you were going to shop longterm care, and you're going to make this commitment, it's important to

look at both. Don't just stop at the federal plan, go out and look at the private sector as well, compare private insurance. Because now we can make a more informed decision that's going to be there. Pick one or two other policies that are out there and say, "All right, which one is going to fit your needs better?"

Tammy Flanagan: Yeah. If you go to the longterm, it's called ltcfeds.com, the longterm care website, under the resources section, they have a comparison so that you can stack up all the benefits, and features of the federal plan towards another plan that you might be looking at, so that you're comparing apples and apples, because you have all these different factors that influence the cost of the policy. The new version of the federal plan offers a return premiums, death benefit, and it also offers a premium reduction benefit available if you still carry the policy at age 85, and haven't gone in to claim. So, those are some features that the federal plan has added that they didn't have under the previous version. So, it's definitely something to look at.

You're going to find there's very few insurance companies now in the country who are selling individual policies anymore. It's getting much, much harder to find because it's just not a profitable business for the insurance company to sell you a policy and me a policy, and we end up going in to claim 30 years from now because as we age, the likelihood of needing longterm care goes up.

Micah Shilanski: Yeah. A couple of things I want to point out about longterm care and maybe, Tammy, we can work on wrapping it up. Two things I think are important about longterm care when you're looking at the insurance, number one is how does in-home care work? Because

most people, when they get sick, do not want to be in a nursing home, right? They want to be at a home. So, how is the policy going to pay for at home coverage that's there? And who are they going to pay to provide your care? For example, if your spouse is providing your care, if your kids are providing your care, does the longterm care policy pay them, and educate them in order to do that? Or are you on your own? Does it only pay for skilled nursing? Which would more than likely rule out any family members. So, these are important things to understand how that works.

Tammy Flanagan: And the federal plan does offer the health informal caregiver, they won't pay your spouse because they live with you, but they'll pay a family member who has to come into your home, or if you move into that family member's home, they will pay them as your caregiver. And pay to train them, and modify your home, so you can stay there. So, that stay at home benefit, like you mentioned, can be one of the most important features.

Micah Shilanski: Now, with that, so correct me if I'm wrong here, but I think the rule is anyone that you're living with at the time, it will not pay for. So, spouse, domestic partner, kids, if they were proactive in moving with you before you turned on a claim for longterm care, they under the federal policy are now ineligible to get paid. Do you understand that correctly?

Tammy Flanagan: Right.

Micah Shilanski: So, the second thing that's really, really important about longterm care, and this is my biggest discussion I have with clients, you need to be making a 30 to 40-year commitment with your premium. So, one of the things that I do when clients want to buy longterm care insurance is

we price out the federal policy today, then I go in and just in Excel, and I start increasing that federal premium every year. Now, the federal plan doesn't go up every single year, but it goes up in tranches, right? Every five to 10 years, that premium has seen a substantial increase. And what I don't want to see happen is all of a sudden you have ... And I'm just going to pick on the federal plan for fun, I'm not ragging on it. It's a good plan.

But let's say you have that federal plan for 15 years, now, all of a sudden you get a letter in the mail, this is now their third premium increase, and you bring it into my office, "And Micah, those dirty, rotten SOBs, they've raised my premium 30%." You're now 80 years old, right? You've raised my premium 30%. I'm going to cancel this policy. And I look at it, and your premium is $180 a month, right? It's cheap. It's super, super inexpensive. But we get caught up in the fact that they're going to raise the premium. So, when you buy this, you got to go with the understanding, you know the premium will increase just like with your health insurance, right?

We know that premium is going to go up. And so, one of the things you need, in my opinion, you need to make a commitment to own this for the next 30 to 40 years. So, look at it. If that price goes up six, 7% every single year, can you still afford it in retirement? And you want to make sure you have that money to make those premiums. I think that's an important part that very few people talk about with longterm care planning.

Tammy Flanagan: Yeah. One of the strategies I talk about with folks is to buy more coverage than maybe you think you'll need initially, as long as you can afford to pay the premiums, then when that day comes, and they say, "We're doubling

your rates." And that has happened, they've doubled the rate. But when that happens, they'll also give you the option to reduce your benefits. So, then you have a choice, you can say, "Can I afford to pay those higher rates, or do I need less coverage? Because I really bought more than I needed to begin with, because I could afford it at that lower price."

Well, I always try to look at all the different ways you can put together a longterm care policy between the inflation option, the daily benefit, the length of the policy. They used to sell lifetime policies, now, the longest policy you can get will pay for five years worth of benefits. So, there's ways you can structure it to strategize those inevitable future increases.

Micah Shilanski: Well, this podcast is all about being designed to have you implement things in order to plan your retirement. So, let's go through a couple of homework assignments, a couple action items that everyone should be doing. We talked about several different things, right? We talked about FEHB, with the rules to keep it, your flexible spending accounts, FSAs, health savings accounts, HSAs. We talked about Medicare, vision, dental, FEGLI, Federal Group Life Insurance, the longterm care. All of these different things, and it can be a little overwhelming. So, the first thing is take one of these, and what's your plan? Well, it's not open season right now. So, you really can't make any decisions on vision, and dental, and your health insurance change.

So, maybe table that. Maybe look at your life insurance, so, longterm care, and pick one of these and say, "Hey, what's my plan? If I die, what's going to happen with my spouse, and my children? If I die, or if I become disabled,

what's my longterm care plan?" And start getting those things in place.

Tammy Flanagan: Yeah. The other thing I would add is that I meet a lot of folks who don't even know what benefits they currently carry. So, get that paycheck and look at the withholdings coming out of your salary, and see if you can figure out, "Okay. I see FEGLI, how much do I have? How much coverage?" Look at your SF-50s, your Personnel Action statement, and will tell you your FEGLI covered. You have option B, just option A. So, figure out what it has. Make a list. "I have this health plan. I have this life insurance." Then the other thing I would add that you can do now, start saving all of your medical receipts. Find out in a given year, how much do you spend out of pocket for healthcare? What is the money being spent on? Is it all prescription costs?

Is it a lot of doctor visits, your specialist care? Have you been in the hospital several times? Or are you healthy? Is it just preventative care? You have very little out of pocket, because that's information you're going to need when open season comes around to know if a low option plan, a high option plan, a high deductible plan, what's going to be the best plan for you and your family? And I think people should do that every year. Just keep a little pocket folder with all of those papers in it. So, when it comes to open season, you can pull that out, add it up, hopefully, make a better choice because I find people get stuck with the same health plan for 45 years, when in reality, they could have saved a ton of money, and possibly had better coverage by choosing the plan that fit them or met their needs at that stage in their life.

Micah Shilanski: You know, Tammy, one of the things that I do for that, because one of the things I do not enjoy doing, I look at other people's budgets, and finances all the time, but for me to sit down and look at all my Quicken reports, and all of that stuff, and separate out expenses, as fun as that sounds to do on a Saturday morning, right? We postpone it and don't do it. So, we'll talk about this on a future podcast, but we do this thing with our clients called cashflow planning. Short answer is what I have is a separate credit card that is only for my medical expenses for the family. And so, this makes this year end discussion very easy.

On that card we actually write on it medical, so, if anything comes up, that is that charge that we have. And now it's super easy at the end of the year, I can look at that credit card, not only to get my miles, and my points, I can use my HSA to pay it off. I can do all those things, but I know exactly what I spent because I have a card dedicated just to that.

So, if looking at all of this stuff is a little much, there's a different way you can look at it too.

Tammy Flanagan: Love that.

Micah Shilanski: Yeah. All right. Well, we hope this podcast and video cast has been very informational. Hopefully, a little bit of fun for you as well. Tammy and I enjoyed going through it. Make sure you tune into next time, because in our fifth part of this five part series, we are going to be talking about what retirement really looks like, right? What is that cashflow? What is that spending? What is your location? Where do you want to be? And you don't want to miss that segment. For more information about your planning, and how you can contact Tammy, and I, feel free to jump

on the website planyourfederalretirement.com/four for this podcast. Until next time, happy planning.

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