

A Closer Look: Medicare for Federal Employees and Retirees

You may have clients who have worked or who are currently working for the federal government. According to the Office of Personnel Management (OPM), as of 2012, there are almost 3 million non-military, federal workers.¹ Federal employees and retirees can be found in every state, not just in our nation's capital, so you're likely to come across them in your counseling work. (Use OPM's interactive [online tool](#) to view the number of federal employees and retirees in your state as of 2014.)

Like your other clients new to Medicare, many of these federal workers may need your help in understanding when and if they should enroll in Medicare and exactly how their federal health insurance benefits will work with Medicare. Here we'll review some important factors for federal employees and retirees to consider about their Medicare.

Background on the FICA Tax

Prior to 1983, all federal government employees were exempt from contributing toward the Part A, or hospital insurance portion, of the Federal Insurance Contributions Act (FICA) withholding payroll tax. In an effort to make the federal retirement program more in line with the private sector and also to increase the Part A trust fund, the Social Security Act was amended and as of January 1, 1983, federal employees were required to pay toward the Medicare Part A FICA tax.²

Because of this change, federal employees may qualify for premium-free Medicare Part A, as long as they have enough working credits. Remember, to be entitled to premium-free Medicare Part A, a person must have earned 10 years, or 40 working credits³ (formerly known as "quarters of coverage"), either through his own or through a spouse's⁴ (including divorced⁵ or deceased⁶) record. Those who worked for the federal government *before* this

¹ OPM, Historical Federal Workplace Tables, *Total Government Employment since 1962*, available at: <https://www.opm.gov/policy-data-oversight/data-analysis-documentation/federal-employment-reports/historical-tables/total-government-employment-since-1962/>

² CMS Manual, Chapter 2, Section 10.1 – Insured Status at <http://cms.gov/Regulations-and-Guidance/Guidance/Manuals/Downloads/ge101c02.pdf>

³ Social Security, Explanation of Working Credits ("Quarters of Coverage") at <http://www.ssa.gov/OACT/COLA/QC.html>

⁴ Social Security, Program Operations Manual System (POMS), HI 00801.008 - Entitlement for Aged Spouse of Age 62 Worker at <http://policy.ssa.gov/poms.nsf/lnx/0600801008>

⁵ Social Security, Program Operations Manual System (POMS), GN 00302.370 – Developing Evidence of Age of Eligible Worker When Uninsured Spouse Applies for HI at <http://policy.ssa.gov/poms.nsf/lnx/0200302370>

⁶ Social Security, Program Operations Manual System (POMS), GN 00302.005 – When a Deceased WE's Age Must Be Established at <http://policy.ssa.gov/poms.nsf/lnx/0200302005>

change took effect were grandfathered-in and deemed automatically eligible for premium-free Medicare Part A.

Note about Social Security Retirement Benefits

Keep in mind, federal government employees who only paid the FICA tax are only insured for Part A, not for Social Security monthly retirement benefits. That is, they will not collect a monthly retirement check from Social Security because they have not contributed to it while working. However, they may have contributed to an alternative retirement system in order to collect benefits.

For example, before 1987, federal government employees contributed toward the Civil Service Retirement System (CSRS), which is similar to Social Security in that it provides monetary retirement, disability retirement, and survivor benefits. This system did not require employees to contribute toward Social Security. Starting January 1, 1987, the Federal Employees Retirement System (FERS) replaced the CSRS and required any *new* federal employees to contribute toward Social Security through the Old-Age, Survivor, and Disability Insurance (OASDI) payroll tax. Federal employees who contributed to the CSRS prior to 1987 had the choice to either keep CSRS or go with FERS, so you may have clients who kept CSRS, converted to FERS, or were new employees under the FERS system.

While you may not need to counsel clients on their Social Security benefits, it's helpful to be familiar with these government-related terms as they may come up during your counseling sessions. If your clients have additional questions about their retirement benefits, you should encourage them to contact either Social Security (<http://www.ssa.gov/>) or the U.S. Office of Personnel Management (OPM) (<http://www.opm.gov/index.asp>).

Medicare & Federal Employees Health Benefits Program (FEHBP)

Here we review how Federal Employees Health Benefits Program (FEHBP) works with Medicare and what your clients in this situation will need to consider when enrolling in the various parts of Medicare.

What is FEHBP?

FEHBP is a type of federal health insurance program available to non-military, federal government employees and retirees. FEHBP is administered through OPM. As of 2013, roughly 90 percent of federal employees participate in the FEHB program⁷.

⁷ OPM, News Release, September 20, 2012, *OPM Announces 2013 FEHBP Premium Rates*, at <http://www.opm.gov/news/opm-announces-2013-federal-employees-health-benefits-program-premium-rates,1758.aspx>

FEHB & Enrolling in Medicare Part A

Most people are eligible for premium-free Part A. Therefore, most people including federal employees and retirees should enroll in Part A when they are first eligible, that is, during their Initial Enrollment Period (IEP).⁸

Even if your clients continue to work, they can and should enroll in Part A. Medicare Part A will usually pay secondary to their FEHB plan and may also help cover some of the costs that FEHB may not cover such as deductibles, coinsurance, and charges that exceed the FEHBP allowable charges. Your clients should contact their specific FEHB plan for more details on this.

FEHB & Enrolling in Medicare Part B

FEHB is a type of employer-group health plan. Therefore, like many of your clients who are in the private sector with employer-group health plan coverage and newly eligible for Medicare, it's important to find out whether they are continuing to work or retiring. This way, you can help them better understand their reasons for considering Part B now when they are first eligible or delaying Part B for enrollment later. Here are some factors they will need to consider depending on their situation:

- **Continuing to Work with FEHB:** If they plan on continuing to work with FEHB coverage past the age of 65, your clients should delay Part B until they retire or lose their insurance, whichever comes first. At that time, they will get an 8-month Special Enrollment Period (SEP) to enroll in Part B. Similar to clients in the private sector, they will be protected from the Part B late-enrollment penalty due to their current actively-working and employer group health plan (EGHP)-coverage status. And, by delaying Part B they may also save money by not having to unnecessarily pay for two premiums (i.e., the monthly Part B premium in addition to the premium for the FEHB plan).
- **Retiring with FEHB:** While most people in the private sector enroll in Part B when they retire or lose their work-related insurance, many federal retirees with FEHB choose to delay Part B since FEHB-retiree coverage (unlike most private sector retiree-coverage) is as good as the coverage they had while still actively working.

However, what's important for your clients with FEHB to know is that if they do not enroll in Part B when they retire and they do not have other insurance coverage through an actively-working spouse, they will likely face a Part B penalty later on if they do enroll in Part B. They would have to pay 10 percent of the current Part B premium

⁸ Medicare Tip Sheet, August 2014, *Understanding Medicare Enrollment Periods* at <http://www.medicare.gov/Pubs/pdf/11219.pdf>

for each 12 months (following their Initial Enrollment Period) they could have had Part B, but did not. So, if even a couple of years have passed, the penalty can become quite costly. And, they would also have to wait for the General Enrollment Period (Jan. 1 – Mar. 31) to enroll in Part B, with coverage not taking effect until July 1 of that year.

There are other factors that may affect your clients' decision about whether to delay or not enroll in Part B. Some FEHB plans will waive coinsurance and deductibles if your clients enroll in Part B, so it may be in your client's financial favor to enroll in Part B. Also, it's worth their time to weigh the financial risk of paying now for both premiums (Part B and the FEHB) versus paying for a Part B late-enrollment penalty should they decide to enroll at a later time. Lastly, it's important to acknowledge that while FEHB plans have a good history of providing comprehensive insurance coverage, employer-group health plans – even FEHBP – are susceptible to change their covered benefits, premiums, deductibles, and copayment amounts, and usually not in a member's favor.

FEHB & Considering Medicare Advantage

Similar to your other clients with Medicare, people with FEHB (both actively working and retirees) can enroll in a Medicare Advantage plan *as long as they have Medicare Parts A and B*. However, there are some important aspects to consider about enrolling in a Medicare Advantage plan.

Since a Medicare Advantage plan would provide benefits similar to FEHB, your clients with FEHB will likely not need both plans. Therefore, like many Medicare-eligible clients in the private sector, they should do a careful comparison of getting their Parts A and B benefits through a Medicare Advantage plan versus through Original Medicare, and what this enrollment means for their FEHB. For example, most people with FEHB may be able to suspend their benefits to enroll in a Medicare Advantage plan, however, they should be sure to find out what happens if they decide they want to return to their FEHB benefits (e.g., Can they re-enroll? And if so, do they have to wait until the next FEHB open enrollment season?). It's important they completely understand how their FEHBP works when enrolling in a Medicare Advantage plan to avoid losing access to their FEHB. They should speak with their benefit's administrator for more details and get confirmation in writing.

FEHB & Enrolling in Part D

Most federal employees and retirees will likely not need to enroll in Part D since all FEHB plans include prescription drug benefits that are considered as good as Medicare ("creditable coverage") unless they are eligible for Part D Extra Help. And if they should lose their FEHB, they can join a Part D drug plan without penalty as long as they join a drug plan within 63 days after losing FEHB.

In most cases, federal retirees will not lose their FEHB if they enroll in Part D. FEHB will coordinate benefits with Medicare. The exception is for those who are annuitants, or retired federal employees who are “re-hired”. These clients should be sure and contact their plan’s benefits administrator to find out the plan’s rules in order to avoid losing their FEHB.⁹

It’s also important to note that if your clients decide to enroll in Part D, payments by the FEHBP (including retiree coverage) as well as TRICARE and VA do not count toward a person’s True Out-of-Pocket Expenses (TrOOP).¹⁰

Other Types of Federal Insurance Programs

In addition to FEHBP, here is a brief review of two other common types of federal insurance programs that you may come across and affect your clients with Medicare:

- **TRICARE for Life (military retirees):** TRICARE for Life, or TFL, is the health insurance program for military retirees and their dependent family members. Your clients with TRICARE generally must enroll in both Medicare Parts A *and* B when they are eligible for it. TRICARE wraps around Medicare and is typically secondary payer to Medicare, usually covering out-of-pocket costs in Original Medicare such as deductibles and coinsurance. Your clients with TRICARE should not need to purchase a Medigap policy, and TRICARE coverage is as good as Medicare’s coverage, so unless your client is eligible for Extra Help, they should not need to enroll in Part D. If your clients should lose TRICARE, they can join a Part D drug plan without penalty as long as they join a drug plan within 63 days after losing TRICARE.

Note: If your clients have both FEHB *and* TRICARE for Life, they can suspend their FEHB to use TFL. Your clients should contact OPM’s retirement hotline at 1-888-767-6738 to request a suspension form.

For more information on TRICARE for Life and Medicare, visit the TRICARE website at <http://www.tricare.mil/Welcome/Eligibility/MedicareEligible.aspx>

- **Veteran’s Benefits:** The Veteran’s Administration (VA) provides health care benefits to veterans of all ages except for those dishonorably discharged. Many of your clients who are eligible for VA benefits will find it to be very comprehensive coverage. However, some of your clients may choose to have both VA and Medicare. For example, some veterans use VA services to get their prescription drugs at the VA pharmacy that are

⁹ OPM, *Letter from OPM about Medicare Part D* at <http://www.opm.gov/insure/health/medicare/disclosure.asp>

¹⁰ Medicare Tip Sheet, Revised November 2014, *Understanding True Out-of-Pocket Costs (TrOOP)*, at <http://www.cms.gov/Outreach-and-Education/Outreach/Partnerships/downloads/11223-P.pdf>

excluded from Medicare Part D coverage. Others may not live near a VA facility, and find that using the VA is not as convenient, therefore, they also use Medicare. Keep in mind, however, that Medicare and VA benefits generally do not work together. That is, to receive VA benefits, your clients must get care at a VA facility. Medicare does not typically pay for any care provided at a VA facility.

Find out more about VA health benefits at <http://www.va.gov/healthbenefits/>

Additional Resources

Here are some additional resources on how FEHB works with Medicare to help you in your counseling sessions:

- *FAQs about Medicare vs. FEHBP Enrollment* at:
<http://www.opm.gov/insure/health/medicare/medicare01.asp>
- *Fast Facts about FEHBP and Medicare* at:
<http://www.opm.gov/insure/fastfacts/fehbmedicare.pdf>
- *Coordination of Medicare and FEHB Benefits* at:
<http://www.opm.gov/insure/health/medicare/medicare04.asp>
- Medicare's publication, *Who Pays First?* at:
<http://www.medicare.gov/Pubs/pdf/02179.pdf>

References

See Medicare's General Information, Eligibility and Entitlement Manual, Chapter 2 – *Hospital Insurance and Supplementary Insurance*, Section 10.1 - Insured Status at <http://cms.gov/Regulations-and-Guidance/Guidance/Manuals/Downloads/ge101c02.pdf>

See Social Security's Program Operation Manual System (POMS), Hospital Insurance Entitlement, at:
<https://secure.ssa.gov/apps10/poms.nsf/subchapterlist!openview&restricttcategory=06008>