

A Closer Look: Medicare for Federal Employees and Retirees

You may help beneficiaries who have worked or who are currently working for the federal government. According to the Office of Personnel Management (OPM), as of 2014, there are more than 4 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.)

Many federal workers need your help to understand 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 change took effect were grandfathered-in and deemed automatically eligible for premium-

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/OC.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>

free Medicare Part A if they were a federal employee any time during the month in January 1983.⁷

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 beneficiaries 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 beneficiaries 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 beneficiaries 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% of federal employees participate in the FEHBP.⁸

⁷ Social Security, Program Operations Manual System (POMS), HI 00801.400 Medicare Qualified Government Employment (MQGE) at <https://secure.ssa.gov/apps10/poms.nsf/lnx/0600801400>

FEHBP & 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) in the six months surrounding their 65th birthday month.⁹

Even if the beneficiary continues to work, they can and should enroll in Part A. Medicare Part A will usually pay secondary to their FEHBP. Generally, Part A covers some of the costs that FEHBP may not cover such as deductibles, coinsurance, and charges that exceed the FEHBP allowable charges. However, there are a variety of FEHBP options and beneficiaries need to contact their specific FEHBP plan for specific details of coordination with Part A.

FEHBP & Enrolling in Medicare Part B

FEHBP is a type of employer-group health plan. Therefore, it's important to find out whether the federal employee will continue to work or plans to retire. 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 FEHBP:** If they plan on continuing to work with FEHBP coverage past the age of 65, they 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 employees in the private sector, federal employees are 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 can 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 FEHBP plan).
- **Retiring with FEHBP:** Remember private sector retiree health insurance becomes the secondary payer (after Medicare) when the employee retires or loses their work-related insurance, and therefore private sector retirees need to enroll in Part B. Unlike private sector retirees, federal retirees can keep their FEHBP-retiree coverage as a

⁸ 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>

⁹ Medicare Tip Sheet, August 2014, *Understanding Medicare Enrollment Periods* at <http://www.medicare.gov/Pubs/pdf/11219.pdf>

primary insurance and it is as good as the coverage they had while still actively working.

However, it's important for retiring federal employees with FEHBP to carefully consider these factors to decide whether to delay or not enroll in Part B:

- (1) After retirement, a Part B late enrollment penalty applies if the retiree does not have other employer insurance coverage through an actively-working spouse. The penalty is 10 percent of the current Part B premium for each 12 months (following their IEP) they waited to enroll, which can be expensive. And, they 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.
- (2) Some FEHBPs waive coinsurance and deductibles after enrolling in Part B. If their FEHBP offers this coverage, it may be in their financial favor to enroll in Part B.
- (3) It's worth their time to weigh the financial risk of paying now for both premiums (Part B and the FEHBP) versus paying for a Part B late-enrollment penalty should they decide to enroll at a later time.
- (4) It's important to acknowledge that while FEHBP 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.

FEHBP & Considering Medicare Advantage

Similar to other beneficiaries with Medicare, people with FEHBP (both actively working and retirees) can enroll in a Medicare Advantage plan *as long as they have both 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 FEHBP, your clients with FEHBP 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 FEHBP. For example, most people with FEHBP 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 FEHBP benefits (e.g., Can they re-enroll? And if so, do they have to wait until the next FEHBP 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 FEHBP. They should speak with their benefit's administrator for more details and get confirmation in writing.

FEHBP & Enrolling in Part D

Remember, a beneficiary enrolled in Medicare Part A or B, or both A & B can join a Part D plan. Most federal employees and retirees that keep FEHBP will not need to enroll in Part D since all FEHBP plans include prescription drug benefits that are considered as good as Medicare (“creditable coverage”). An exception worth considering are federal retirees eligible for Part D Extra Help because their costs may be lower. And if they should lose their FEHBP, they can join a Part D drug plan without penalty as long as they join during a Special Enrollment Period within 63 days after losing FEHBP.

In most cases, federal retirees will not lose their FEHBP if they enroll in Part D. FEHBP 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 FEHBP.¹⁰

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) in the coverage gap (also known as the donut hole).¹¹

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. People with TRICARE generally must enroll in both Medicare Parts A *and* B when they are eligible for it. TFL wraps around Medicare and is typically secondary payer to Medicare, usually covering out-of-pocket costs in Original Medicare such as deductibles and coinsurance. Beneficiaries with TFL do not need to purchase a Medigap policy. Likewise, TFL prescription coverage is credible (at least as good as) to Part D, so they do not need to enroll in Part D. An exception applies if the beneficiary is eligible for Extra Help and has lower costs. If they happen to 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.

¹⁰ OPM, *Letter from OPM about Medicare Part D* at <http://www.opm.gov/insure/health/medicare/disclosure.asp>

¹¹ 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>

Note: If your clients have both FEHBP *and* TFL, they can suspend their FEHBP 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 TFL and Medicare, visit the TRICARE website at http://www.tricare.mil/Plans/Eligibility/MedicareEligible?sc_database=web

- **Veteran's Benefits:** The Veteran's Administration (VA) provides health care benefits to veterans of all ages except for those dishonorably discharged. Many eligible for VA benefits will find it to be very comprehensive coverage. However, some 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 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, they 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 FEHBP 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 FEHBP 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>