

Medicare for Federal and State Government Employees and Retirees

Individuals who are currently working for, or have retired from, service in the federal or state government have special considerations regarding their Medicare coverage options. Read on to learn more about their enrollment decisions and how Medicare coordinates with other coverage.

Federal Employees and Retirees

The date on which federal employees/retirees started their service may affect their receipt of Part A and Social Security benefits, as described below.

The FICA Tax and Medicare Part A

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. To make the federal retirement program more in line with the private sector and 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.¹

Because of this change, most federal employees will qualify for premium-free Part A, so long as they have enough working credits. Remember, to be entitled to premium-free Medicare Part A, your clients must have earned 10 years, or 40 working credits², either through their own or through a spouse's³ (including divorced⁴ or deceased⁵) record. Those who worked for the federal government *before* this change took effect were grandfathered in and deemed automatically eligible for premium-free Medicare Part A.⁶

¹ CMS Manual, Chapter 2, Section 10.1 – Insured Status at <http://cms.gov/Regulations-and-Guidance/Guidance/Manuals/Downloads/ge101c02.pdf>

² Social Security, Explanation of Working Credits (“Quarters of Coverage”) at <http://www.ssa.gov/OACT/COLA/QC.html>

³ 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>

⁴ 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>

⁵ 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>

⁶ 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>

Social Security retirement benefits

Before 1987, federal government employees contributed toward the Civil Service Retirement System (CSRS), a defined-benefits plan akin to a pension. The CSRS 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 to 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 remain in CSRS or enroll into FERS.

While you may not need to counsel federal retirees on Social Security benefits it is helpful to recognize that some retirees remained in CSRS, others converted to FERS, while others only had access to FERS. 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 & the Federal Employees Health Benefits Program (FEHBP)

Most federal employees participate in the Federal Employees Health Benefits Program (FEHBP), a type of federal health insurance available to non-military, federal government employees and retirees. FEHBP is administered through OPM and works with Medicare. The information below describes how FEHBPs work with each part of Medicare.

Part A

Most federal employees and retirees are eligible for premium-free Part A; therefore, they should enroll in Part A when first eligible, that is, during their Initial Enrollment Period (IEP) in the six months surrounding their 65th birthday month.

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.

Part B

Whether a federal employee plans on continuing to work or retire at 65 is pivotal to the question of whether to enroll into Medicare Part B when first eligible or delay enrollment. Both scenarios are described below:

- **Continuing to work with FEHBP:** If the employee plans on continuing to work with FEHBP coverage past the age of 65, they should delay Part B enrollment until they retire or lose their insurance, whichever comes first. At that time, the retiree will be eligible for an 8-month Special Enrollment Period (SEP) to enroll in Part B. Like private sector employees, 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.
- **Retiring with FEHBP:** Once the federal retiree decides to retire he/she must carefully consider the question of enrolling into Medicare Part B. Unlike many private sector retirees for whom retiree health insurance becomes the secondary payer after Medicare once they stop working, FEHBP retiree coverage can continue to act as a primary insurance and is as good as the coverage available to active working federal employees.

However, retiring federal employees with FEHBP should consider the following factors when deciding 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% of the current Part B premium for each 12 months (following their IEP) they delayed enrollment. Additionally, the retiree must wait for the annual General Enrollment Period (Jan. 1 – Mar. 31) to enroll in Part B, with coverage beginning on July 1 of that year.
2. Some federal and retiree health plans waive coinsurance and deductibles after enrolling in Part B. If their FEHBP offers this coverage, it may be in retirees' financial benefit to enroll in Part B.
3. Retirees should compare the costs and benefits of paying two premiums (Part B and the FEHBP) now versus paying a Part B premium plus a late enrollment penalty should they decide to enroll later.
4. While FEHBP plans have a good history of providing comprehensive insurance coverage, employer group health plans – even FEHBP – are susceptible to altering covered benefits, and increasing premiums, deductibles, and copayment amounts.

FEHBP & Medicare Advantage

Like other beneficiaries with Medicare, people with FEHBP (both actively working and retirees) can enroll in a Medicare Advantage plan *if they are enrolled in both Medicare Parts A and B.* However, there are some important points to consider when enrolling in a Medicare Advantage plan.

First, retirees should take the time to understand how Part A and B benefits will be delivered through a Medicare Advantage network versus Original Medicare such as provider network limitations and referral requirements for specialists. Retirees who join a Medicare Advantage plan may suspend their FEHBP coverage which means they only pay their Medicare Part B premium and any premium charged by the Medicare Advantage plan. Before opting to suspend FEHBP coverage, retirees should contact their retirement office to learn more about the process for suspending FEHBP enrollment and any limitations on FEHBP re-enrollment. Retirees are reminded to obtain written confirmation of the FEHBP suspension and re-enrollment requirements.

FEHBP & Part D

Most federal employees and retirees that are enrolled in a FEHBP are not required to enroll into a Medicare Part D plan since all FEHB plans offer creditable prescription drug coverage meaning it is as good as Medicare's drug coverage. However, low-income federal retirees who are eligible for the Part D Low Income Subsidy/Extra Help should weigh the benefits of both plans; the Part D drug plan usually provides lower copayments but the FEHBP plan's formulary is often broader with fewer restrictions. In most cases, federal retirees will not lose their FEHBP if they enroll in Part D but know that the Part D is typically the primary payer for prescription drugs. Rules may be different for annuitants or retired federal employees who are "re-hired". These individuals should contact their plan's benefits administrator to learn more about the plan's rules to avoid jeopardizing their FEHBP.⁷ If retirees 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.

Other types of federal insurance programs

In addition to FEHBP, here are few other common types of federal programs that you may encounter as you counsel clients with Medicare:

- **TRICARE** is a health insurance program for active duty and retired military personnel and their family members. TRICARE includes several different programs. Active duty members and their families usually receive benefits under TRICARE Prime or Standard. Like actively employed individuals, enrollment into Medicare Part B can be delayed until active duty ends, and the retiree will be eligible for an 8-month Special Enrollment Period (SEP) to enroll in Part B.
- **TRICARE for Life (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 first eligible. TFL wraps around Medicare and

⁷ OPM, *Letter from OPM about Medicare Part D* at <http://www.opm.gov/insure/health/medicare/disclosure.asp>

acts as the secondary payer covering Medicare 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 enrollment into Part D is not required or recommended. An exception applies if the beneficiary is eligible for Extra Help which may lower prescription drug costs.

If a retiree happens to lose TRICARE, they can join a Part D drug plan without penalty so long as they join a drug plan within 63 days after losing TRICARE.

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 Department of Veterans Affairs (VA) provides health care (and additional) benefits to individuals of all ages who served in the active military, naval, or air service and didn't receive a dishonorable discharge. Many eligible for VA health care will find it to be very comprehensive coverage, but they must receive that care at a VA medical center or other VA location. Veterans are encouraged to enroll into Medicare when first eligible to:
 - Avoid delay in obtaining Medicare coverage and the Part B late enrollment penalty
 - Provide coverage for health care obtained outside of the VA health system
 - Ensure coverage for Medicare-approved health care benefits and services. The VA does not provide a standard set of benefits and services for all veterans and your local VA facility may not provide all the services you need.

Many veterans may choose to have both VA and Medicare. For example, some veterans use VA services to get their prescription drugs at the VA pharmacy (the VA benefit offers creditable drug coverage which means someone can delay Medicare Part D enrollment without incurring a part D late enrollment penalty) but have Medicare to see providers outside the VA medical centers. Keep in mind that Medicare and VA benefits generally do not work together; Medicare does not typically pay for any care provided at a VA facility and the VA does not cover services provided outside of the VA health system. Find out more about VA health benefits at <https://www.va.gov/health-care>.

State/Local Government Employees and Retirees

Just as with federal employees/retirees, it is important to recognize the importance of hiring dates when counseling individuals that worked for state/local governments.

Individuals hired before April 1, 1986

State and local government employees hired before April 1, 1986 were exempt from paying the Federal Insurance Contributions Tax (FICA) and therefore not subject to mandatory Medicare coverage.

To provide Social Security and Medicare hospital insurance (HI) for state and local government employees, state entered in Section 218 Agreements with Social Security. The voluntary written agreements establish that the state agrees to provide Social Security and Medicare hospital insurance (HI) coverage for state and local government employees. With the Section 218 agreements, state and local government employees have the same coverage and benefit rights as employees in the private sector.

Currently, all states have a Section 218 Agreement in place, but the extent of coverage varies. To find out what groups are covered in your state, contact your state Social Security Administrator.

Individuals hired after March 31, 1986

State and local government employees hired (or rehired) after March 31, 1986 are subject to mandatory Medicare coverage, unless specifically excluded under Section 210(p) of the Social Security Act. After this date, state and local government employees were required to pay toward the FICA payroll tax. These beneficiaries, therefore, may be eligible for premium-free Part A so long as they have enough working credits.

Retiree coverage and Medicare

Retired state/local government employees who qualify for Medicare based on the rules above and are not covered under health insurance provided by an active employment (self/spouse), should enroll in Medicare Parts A & B when they first become eligible. Medicare is the primary insurer which pays first, and retiree coverage is the secondary payer.

Since retiree coverage isn't based on current employment, an individual that delays enrolling in Part B when first eligible won't be eligible for a Special Enrollment Period to enroll in Part B later and may face a late enrollment penalty.

Depending on the coverage provided by their retiree plans, former state/local government employees may want to weigh their options to determine whether they should retain their retiree coverage and/or enroll in a Part D prescription drug plan or Medigap policy. Clients should be advised to get a copy of their plan's benefit materials or call their employer's benefits administrator and ask how the plan coordinates with Medicare coverage.

Health Exchanges

In recent years, some employers including state and local governments have begun contracting with private health care exchanges to provide benefits to their retired employees. Through the private exchange retirees choose among pre-selected Medicare Advantage, Medicare supplemental, and Part D prescription drug plans and other benefit packages which can include dental and/or vision benefits. Instead of receiving a premium contribution, participants receive an employer contribution to a Health Reimbursement Arrangement (HRA) account, which may be used to pay plan premiums. Retirees are advised to contact their former employer or benefits administrator for details about the health exchanges set up by their former employers.

Additional Resources

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

- *FAQs about Medicare vs. FEHBP Enrollment* at:
<http://www.opm.gov/insure/health/medicare/medicare01.asp>
- *Coordination of Medicare and FEHBP Benefits* at:
<http://www.opm.gov/insure/health/medicare/medicare04.asp>
- Medicare's publication, *Your Guide to Who Pays First* at:
<https://www.medicare.gov/Pubs/pdf/02179-medicare-coordination-benefits-payer.pdf>

References

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

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

See the Social Security's Administration online publication, *How State and Local Government Employees Are Covered by Social Security and Medicare*:
<https://www.ssa.gov/pubs/EN-05-10051.pdf>