

How to Navigate Early Retirement Health Insurance: A Guide for Professionals Considering Work Optionality Before Age 65

For many professionals who reach this level of flexibility, the focus shifts from whether early retirement is possible to how to navigate the practical decisions that come with it. Work optionality can open the door to retiring early or pursuing roles driven more by purpose and enjoyment rather than compensation.

However, one major iceberg consistently sits just below the surface for early retirees: health insurance.

While retirement planning often focuses on investments and income, health insurance can quickly become one of the largest and most underestimated expenses in the years before Medicare begins. Without proper planning, this single issue can delay retirement plans or add tens of thousands of dollars in unnecessary costs.

We recently hosted a webinar focused entirely on this topic, given how frequently it comes up in conversations with clients. This article summarizes the key concepts and planning strategies to help you better understand how to navigate early retirement health insurance and avoid costly surprises.

The Core Challenge: Bridging the Gap to Medicare

While you are working, employer-sponsored health insurance is typically straightforward. Once you reach age 65, Medicare provides widely accepted and relatively affordable coverage.

The challenge lies in the gap between leaving your employer and Medicare eligibility. For many early retirees, that gap can span five to ten years.

Without a plan, this period can feel like navigating choppy waters with limited visibility. With the right strategy, however, it can be managed deliberately and cost-effectively.

Health Insurance Options After Leaving Work

There are several ways to maintain coverage after leaving your employer. Each plays a role depending on timing, income, and family circumstances.

- **COBRA Coverage**

Upon separation from your employer, you are typically eligible to continue your existing health insurance through COBRA for up to 18 months. While COBRA is more expensive than active employee coverage, it provides continuity of care and simplicity during the transition.

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COBRA can be especially valuable during years when it makes sense to intentionally recognize higher taxable income. These transition years are often ideal for absorbing severance, deferred compensation payouts, continued vesting of stock-based compensation, or executing other tax strategies that increase reported income. Using COBRA as a bridge during this period can create more flexibility later, allowing subsequent years on ACA coverage to be structured around lower targeted income levels.

- **ACA Marketplace Insurance**

After COBRA ends, or in some cases immediately after retirement, many early retirees turn to insurance through the Affordable Care Act marketplace.

ACA insurance premiums are heavily influenced by your household income, specifically your Modified Adjusted Gross Income (MAGI). This creates both a challenge and an opportunity.

With thoughtful income planning, ACA coverage can be surprisingly affordable. Without planning, it can become one of the largest line items in your retirement budget.

How ACA Income Planning Used to Work

Over the past several years, particularly since COVID, the ACA subsidy structure was very favorable. Subsidies operated on a sliding scale, meaning that as income increased, subsidies gradually decreased.

Under this structure, many households continued to receive some level of subsidy even at relatively high income levels, often well into the mid six figures, depending on age, location, and plan costs.

In early retirement, many individuals have significant control over their taxable income. By strategically managing capital gains, timing RSU or incentive compensation sales, and deciding when to recognize income from taxable accounts, retirees were often able to remain in favorable tax brackets. In many cases, this meant qualifying for the 0 percent capital gains rate or staying within the 12 percent ordinary income bracket, keeping both taxes and health insurance premiums very reasonable. Even when capital gains are taxed at 0 percent, they still increase MAGI and can affect ACA health insurance eligibility.

It is important to remember that ACA income is based on what shows up on your tax return, not how much cash you spend. For example, selling bonds or drawing from principal in a taxable account may have little to no impact on taxable income, while selling highly appreciated stock or receiving deferred compensation payments can materially increase it. In practice, two households spending the same

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amount can face very different health insurance costs depending solely on which assets they draw from.

One key strategy we review with clients is whether it makes sense to make contributions that reduce MAGI, such as Health Savings Account contributions, while recognizing that tax-exempt interest does not help for ACA purposes.

The Return of the Subsidy Cliff

More recently, a meaningful hurdle has returned.

The ACA subsidy structure reverted from a sliding scale back to a cliff. Under the current rules, households with income above 400 percent of the federal poverty level receive no subsidy at all.

For a married couple, that income limit is approximately \$85,000. For single individuals or families with dependents, the threshold varies based on household size.

Once income crosses that line, health insurance premiums can jump dramatically. Whether your income is \$100,000 or \$1 million, the cost of coverage is the same.

For example, research has shown that a 60-year-old couple earning just over \$85,000 could see annual health insurance premiums increase by more than \$20,000 in a single year if they cross the subsidy threshold. In that scenario, the cost of coverage can rise from under 10 percent of household income to roughly a quarter of annual income almost overnight.

While this topic continues to be debated at the policy level, planning needs to assume the rules as they exist today.

Why a Well-Designed Retirement Income Plan Matters

The good news is that retirement often brings flexibility.

Many retirees have meaningful control over how and when income is recognized. With proper planning, it is often possible to manage income under key thresholds, resulting in substantial health insurance savings.

We often see this catch people by surprise. Individuals who have done an excellent job saving assume their expenses will decline in retirement, only to discover that poorly timed income recognition dramatically increases their health insurance costs.

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Saving \$20,000 per year on premiums may not sound dramatic in isolation. Multiply that by several years before Medicare, and the impact becomes material.

This is why health insurance planning needs to start well before the retirement date itself.

Planning Ahead: The Two Years Before and After Retirement

The final working years and the 18 months on COBRA are often the most valuable planning windows.

These years can be ideal for intentionally realizing capital gains, completing Roth conversions, or accelerating income from deferred compensation plans while health insurance costs are less sensitive to income.

Deferred compensation elections, payout schedules, and vesting timelines for stock-based compensation require special attention. Poor coordination can unintentionally stack income on top of itself in early retirement, pushing taxable income well above expectations and significantly increasing health insurance costs.

In many cases, we intentionally choose certain years where health insurance will be expensive and fully utilize favorable tax brackets. In other years, we tightly manage income to remain below key ACA thresholds.

The key is coordination across income sources, tax strategy, and insurance planning.

A Moving Target That Requires Ongoing Attention

Health insurance rules, tax laws, and benefit structures continue to evolve. What worked five years ago may not work the same way today.

This is why early retirement health insurance planning is not a one-time decision. It is a multi-year process that needs to be revisited as circumstances change.

For anyone considering retirement or work optionality within the next five years, now is the right time to map this out. The greatest leverage often comes from decisions made in the years immediately before and after retirement, when income, taxes, and health insurance choices intersect most directly.

We offer a complimentary second-opinion meeting to help ensure your retirement plan is aligned with your goals. This is an opportunity to stress-test your assumptions, identify potential risks, and determine whether adjustments made today could meaningfully improve your outcome. [You can schedule a conversation with us here.](#)

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