



Bridging the Medicare Gap:

How to Help Employees Prepare for Health Care Costs in Retirement

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AGENDA

- The Cost of Health Care in Retirement
- The Employer Opportunity
- The Impact of Employer Support
- Bringing it Together – A Case Study
- Key Resources and Actions You Can Take

Are Your Retirees Ready?

- Do you offer health insurance to retirees?
- Do you offer health savings plans?
- Do you believe your employees are ready?



How much might the average 65-year-old couple retiring in 2026 plan to spend for out-of-pocket health care expenses in retirement?

\$388,000*

**Assumes couple is enrolled in Medicare Parts A, B, D and Medigap
Source: Milliman*



**1 in 3 Americans
lack confidence in
affording health care
throughout retirement.**



The Cost of Health Care in Retirement



Retirement Planning

Expenses



Vehicles

(loans, maintenance, insurance, gas)



Utilities



Housing

(mortgage, insurance, maintenance, taxes)

Income



Savings



Social Security



Retirement Plans

Retirement Planning

Expenses



Vehicles

(loans, maintenance, insurance, gas)



Utilities



Housing

(mortgage, insurance, maintenance, taxes)



Healthcare

(premiums, out of pocket, copays, uncovered)

Income



Savings

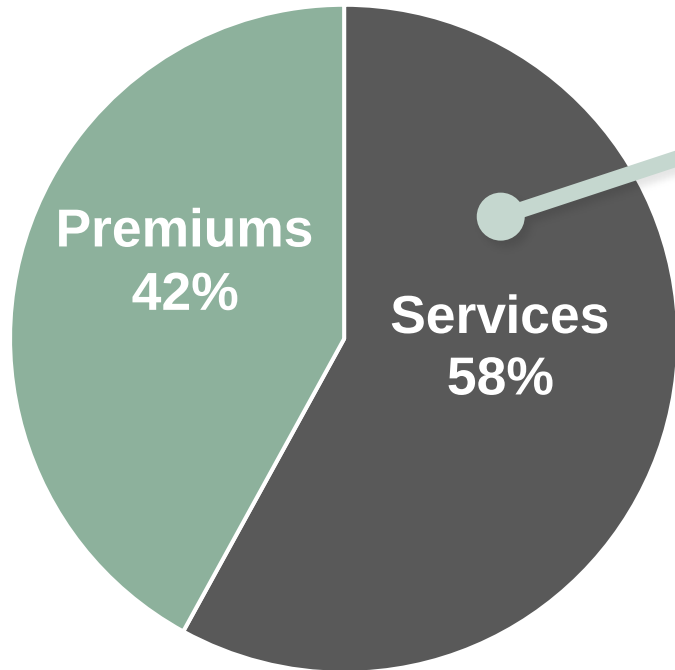


Social Security



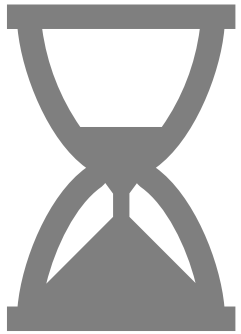
Retirement Plans

Out-of-Pocket Costs with Medicare

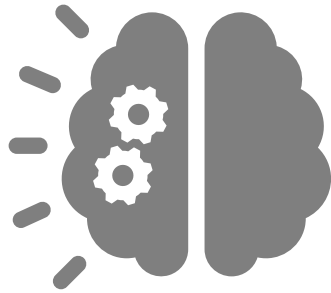


Service Type	Spending %
Long-term care facility	32%
Medical providers	22%
Prescription drugs	21%
Dental services	14%
Skilled Nursing Facility	5%
Outpatient hospital	4%
Inpatient hospital	2%

Health Care Costs Impact on Retirement



**Delayed
Retirement**



**Increased
Stress**



**Compromised
Health**



**Changed
Standard of Living**

What's Covered



PART A

Hospital Coverage

Partial coverage for:

- Inpatient Hospital Stay
- Hospice
- Skilled Nursing
- Home Care



PART B

Outpatient Medical Care

Partial coverage for:

- Doctor visit
- Outpatient surgery
- Labs
- Durable Medical equipment



PART C

Medicare Advantage

Part A and Part B benefits provided by private insurance

Additional coverage may include:

- Wellness
- Vision
- Hearing aids
- Limited dental
- Home meals
- Over-the-counter drug allowance



PART D

Prescription Drug Coverage

Private insurance that covers drugs not covered by Part A & B

What's Covered



PART A

Hospital Coverage

Partial coverage for:

- Inpatient Hospital Stay
- Hospice
- Skilled Nursing
- Home Care



PART B

Outpatient Medical Care

Partial coverage for:

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- Outpatient surgery
- Labs
- Durable medical equipment



WHAT'S NOT COVERED

- Skilled nursing home stay beyond 100 days
- Dental, vision, and cosmetic procedures
- Deductibles, coinsurance, and copayments

What's Covered

PART C

Medicare Advantage

- You still have Medicare BUT Part C provides your Part A and Part B benefits through a private insurance company that you choose
- Often includes prescription drug coverage (Part D)
- May include extra benefits
- Plans vary by cost, coverage, and provider network



PART C

Medicare Advantage

Part A and Part B benefits provided by private insurance

Additional coverage may include:

- Wellness
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PART D

Prescription Drug Coverage

Private insurance that covers drugs not covered by Part A & B

Understanding Medicare Part D

Separate policy if enrolled in Medicare supplement plan

Monthly premium is paid to Insurer

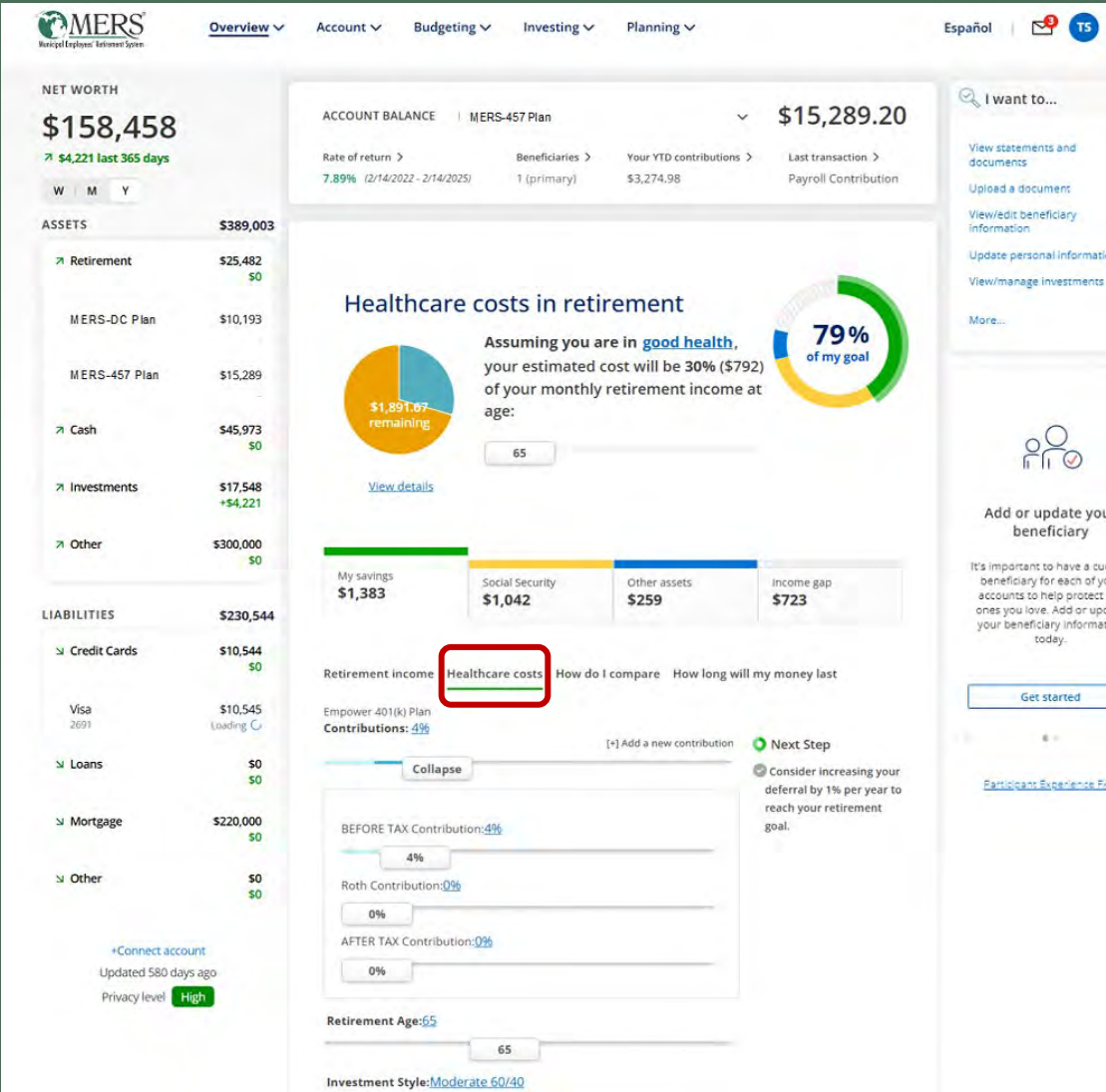
Covers generic and brand-name prescription drugs

Recent changes to plan design include \$2,000 out-of-pocket annual maximum

Insurer provides an Explanation of Benefits (EOB)

It is not required to enroll in Medicare Part D, but you may pay a permanent penalty if you don't enroll when first eligible.

Planning ahead



Personalize your healthcare costs

Your personalized profile is based on the assumption that you are in good health, but you can adjust this profile to estimate how certain health conditions could affect your healthcare costs in retirement. Please note: The personal health condition information below will not be shared with your employer.

Select health conditions below to view the impact on retirement health costs. (Check all that apply)

☐ Tobacco User *i*

☐ High Cholesterol *i*

☐ High Blood Pressure *i*

☐ Cardiovascular Disease *i*

☐ Type 2 Diabetes *i*

☐ Cancer *i*

Where do you want to retire?
Healthcare costs vary across the states where you might retire.

Michigan

Helpful links: [Your full report\(PDF\)](#) www.medicare.gov

Cancel Save

The Employer Opportunity



The New Position of Employers



The New Position of Employers

81%

of employers rate retirement savings and planning benefits as “very important” or “extremely important.”

Source: SHRM 2025 Employee Benefits Survey

59%

of employees say retirement plans are among the top benefits that would cause them to leave one employer for another with better benefits.

Source: Payroll Integrations 2025 Employee Financial Wellness Report

79%

of employees believe their company needs to do a better job helping them understand and maximize their workplace financial benefits.

Source: Morgan Stanley at Work, 2025 State of the Workplace Financial Benefits Study

Where You Can Help



Understanding
Costs

Preparing
Financially

Making
Well-Informed
Decisions

Not Offering Health Insurance?

- Many municipalities do not offer retiree health insurance
- Retirees will still face those uncovered costs
- MERS has plans to help them cover those costs

Health Care Savings Program (HCSP)





USING YOUR

HEALTH CARE SAVINGS PROGRAM

This guide provides useful information for using your MERS Health Care Savings Program (HCSP) account after you've separated from your employer. For other details about how the account works, please see the [HCSP Handbook](#). To learn more about the investment funds behind the account, you can refer to "[Understanding the MERS Investment Menu](#)."

Municipal Employees' Retirement System of Michigan 1134 Municipal Way Lansing, MI 48917 800.767.6377 mersdmich.com

How HCSP Works

Contributions are made **while employee works.**

Employee manages the investments in the account.

Employee can access funds any time after termination for tax-free medical expense reimbursements.

Tax Advantage

1 Contributions go in

✓ Tax-free

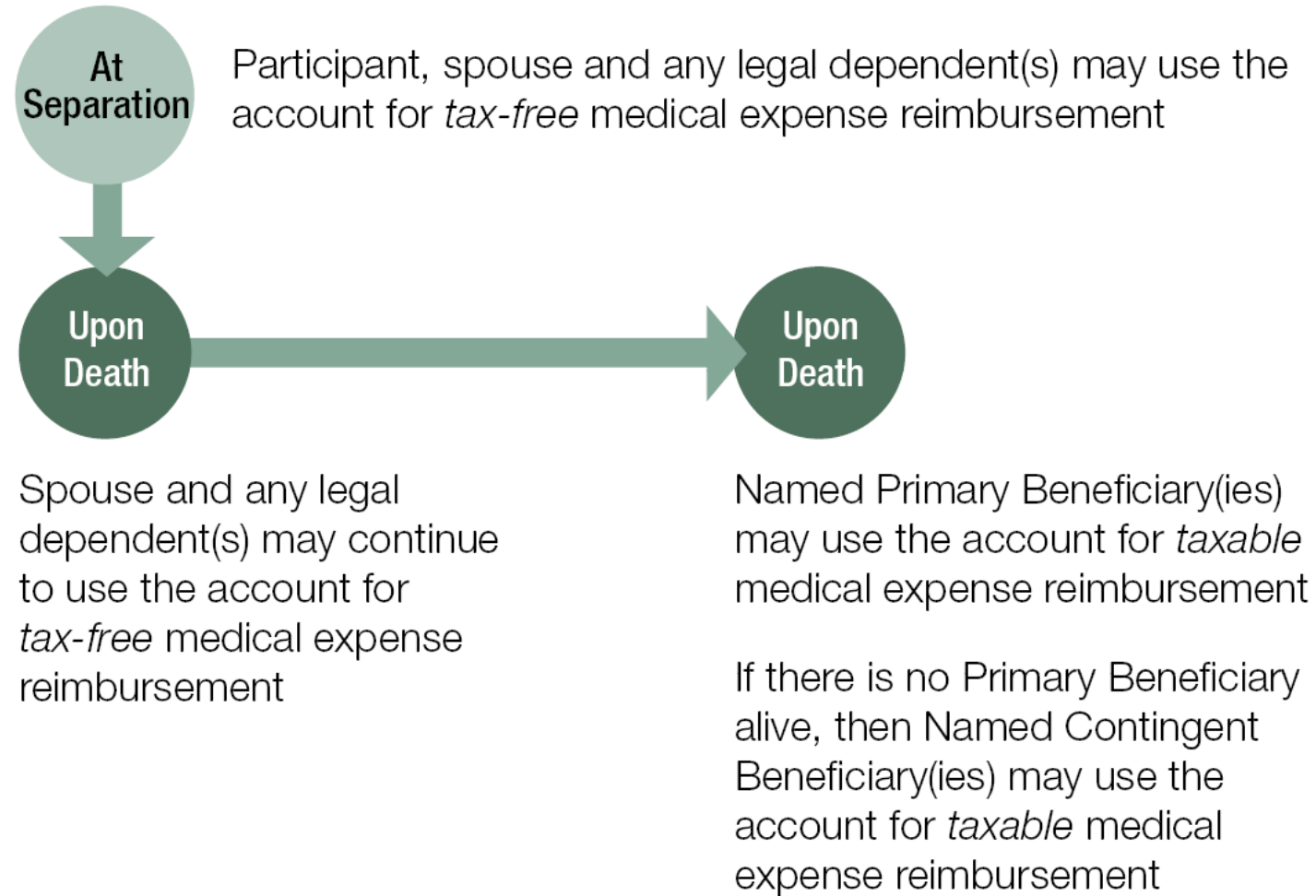
2 Assets are invested

✓ Tax-free

3 Used after termination on eligible medical expenses

✓ Tax-free

Who Can Use Your HCSP Account



Eligible Expenses

Examples:

- Braces
- Deductibles & Co-pays
- Dental
- Eyeglasses
- Health care premiums
- Vision

Health insurance premiums that are salary-deducted or paid on a pre-tax basis cannot be reimbursed using HCSP funds.

Reimbursable Health Care Expenses

The following is a list of common reimbursable medical expenses. Please refer to [IRS Publication 502](#) for details. MERS has made every effort to ensure that the information provided is accurate and up to date. Where there are discrepancies between this document and IRS Publication 502, IRS Publication 502 supersedes.

- | | | |
|--|---|--|
| <ul style="list-style-type: none">• Acupuncture• Alcoholism or drug dependency treatment and treatment centers• Ambulance• Anesthesiologist• Artificial limbs and teeth• Bandages (Band-aids, elastic wrap)• Birth control pills and devices• Blood pressure monitoring devices• Braille books and magazines (to the extent exceeding prices for regular books and magazines)• Car (with special medical equipment)• Childbirth preparation classes for mother, excluding portion for mother's coach• Chiropractor• Christian Science practitioner• Clinic• Co-insurance (health, dental and vision)• Co-payments (health, dental and vision)• COBRA premiums• Cold/hot packs• Contact lenses, solution and cleaners• Contraceptives• Crutches• Dental treatment, including dentures, implants and orthodontics (excluding whitening)• Dermatologist• Diabetic supplies• Diagnostic devices/services (e.g., MRI, CT Scan)• Drugs/medications (prescription)• Eye examination• Eyeglasses - prescription and reading• Eye surgery (laser or radial keratotomy)• Fertility treatments ¹• Guide dog and its upkeep | <ul style="list-style-type: none">• Gynecologist• Hearing aids and batteries• Home modification to accommodate handicapped person ¹• Hospital services• Incontinence supplies• Insulin and diabetic supplies• Insurance premiums for medical, dental, vision, or long-term care ²• Laboratory fees• Lactation supplies• Lip-reading lessons• Lodging for medical care ¹• Long-term care services and premiums (paid on annual basis) ¹• Mastectomy bras• Medical supplies• Medicare Part B, C and D premiums• Medications which require a prescription• Mental institution care (mentally ill person unsafe when left alone)• Mentally handicapped, special home for nursing services ¹• Midwife• Neurologist• Nursing care• Nursing home (if for medical reasons)• Obstetrician• Ophthalmologist• Optometrist• Organ transplant, medical expenses of donor or prospective donor• Orthodontics• Orthopedic shoe inserts• Osteopath, licensed• Over-the-counter medications (OTC) ⁴• Oxygen equipment, including CPAP• Pediatrician | <ul style="list-style-type: none">• Physical examination• Physical therapy• Podiatrist• Practical nurse• Pregnancy test kits• Prescription drugs/medications• Psychiatrist ³• Psychoanalyst ³• Psychologist ³• Rehydration solution (e.g., Pedialyte)• Rental of medical equipment ¹• Sex therapist• Smoking cessation programs• Special schooling for physically or mentally handicapped• Speech therapy• Spousal or personal insurance premiums ²• Sterilization, legal• Sunscreen• Surgery and related treatment (except cosmetic)• Telephone for hearing impaired• Television closed caption decoder equipment which displays the audio part of TV programs for hearing impaired• Therapy received as medical treatment• Thermometers• Transportation expenses for essential medical care, including mileage and parking ¹• Tuition at special school for special needs program ¹• Vaccinations• Vasectomy• Wheelchair• Wrist/joint supports• X-rays |
|--|---|--|

¹ See [IRS Publication 502](#) for guidelines

² Health insurance premiums that are salary-deducted or paid on a pre-tax basis cannot be reimbursed using HCSP funds

³ Must be for medical care only

⁴ Passage of the Coronavirus Aid, Relief, and Economic Security Act (CARES) allows for over-the-counter medications to be covered by MERS Health Care Savings Program funds effective 1/1/2020, until Congress deems otherwise

HSCP in Action

Today's Retiree

- ✓ Medicare
- ✓ Out of pocket costs
- X** Dedicated health care savings

20 Years From Now

- ✓ Medicare
- ✓ Out of pocket costs
- ✓ Dedicated health care savings

HCSP Funding Strategies

1

Active Employees

Build savings while working

New hires or current employees

2

Pre-Medicare Retirees

Bridge the gap before Medicare

Eligible former employees

3

Medicare-Eligible Retirees

Help with ongoing health care costs

Eligible former employees

What is a Private Exchange?

Purchasing benefits from carrier of their choice

Types of plans:

- Pre-65 coverage
- Medicare Advantage
- Medicare Supplement
- Part D prescription drug plans
- Dental and vision plans



Advantages for Retirees



Wide variety of carriers and plans



Open to all MERS retirees – no employer adoption necessary



Premiums can be paid from Health Care Savings Program

Consider These Strategies

1

RHFV

- Determine the contribution amount and frequency to fund
- Provide funding for future health care expenses
- Support retirement readiness
- Maintain control of employer contributions
- Enhance your benefits package

2

457

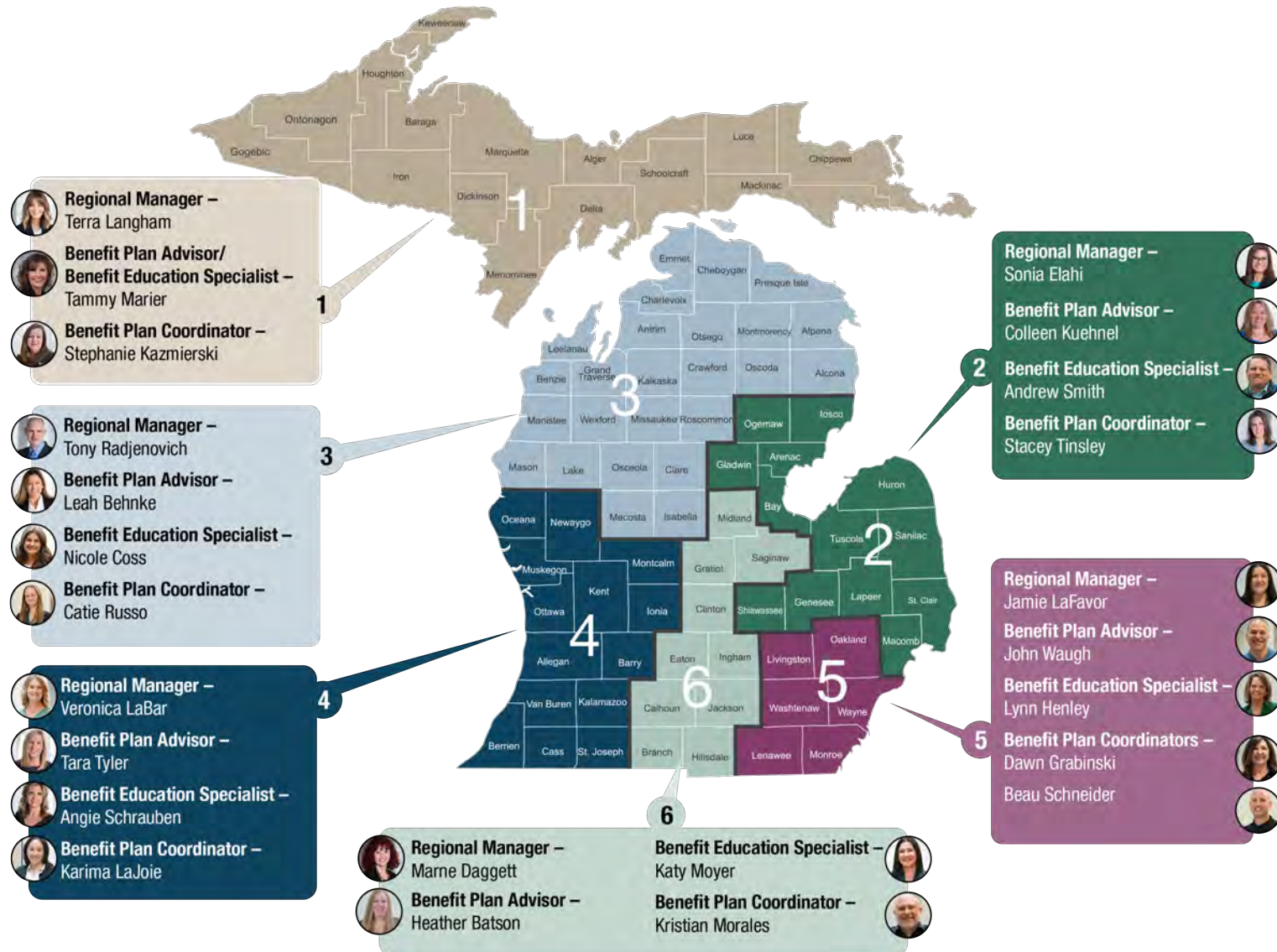
- Supplement income
- Give employees more control over their retirement savings
- Support retirement readiness
- Offer flexibility for a variety of retirement goals
- Enhance the value of your benefits package

3

IRA

- Provide another way to save for retirement
- Help employees consolidate retirement assets
- Offer flexibility through traditional or Roth options
- Support long-term financial wellness
- Enhance your overall benefits package

Regional Team



The Impact



What Employer Support Gives Staff

- Confidence
- Preparedness
- Better decision-making
- Timely retirement



What it Means to You

- Enhanced benefit package
- Employee value
- Stronger workforce planning
 - Recruitment
 - Retention



Bringing it Together

Case Studies



Gerald R. Ford International Airport Authority (GFIAA)

BEFORE:

Retirees given a stipend to help pay for health care

- OPEB liability
- Did not cover spouse
- Only covered 1/3 of their premium
- Could only be used to purchase county plan

AFTER:

Active participants given HCSP with employer contributions and employee contributions of 1%

- No future OPEB liability
- Access to account after leaving
- Covered spouse and dependents
- Can be used anywhere

Gerald R. Ford International Airport Authority (GFIAA)

“When it comes to recruiting skilled workers, the quality of benefits offered makes a significant difference in our ability to attract and retain talent. The MERS Health Care Savings Program allows us to provide a meaningful, portable benefit that appeals to employees of all ages.”

Lisa Belt

Human Resources Director

Gerald R. Ford International Airport Authority



City of Eaton Rapids

BEFORE:

Faced a \$10.5 million unfunded OPEB liability and was required to take corrective action.

- Offered retiree health insurance to Medicare eligible
- Employee did not have dental or vision coverage
- City was considered underfunded under PA 202 so had to file a corrective action plan

AFTER:

Reduced that liability to \$4 million while preserving retiree health care benefits and giving retirees more choices.

- Set up RHFV to fund obligation
- Ceased offering retiree health insurance to new hires and provided HCSP
- Active and retirees received a stipend and lump sum based on years of service to HCSP to purchase a plan through the exchange
- With extra money from the stipend retirees were able to purchase dental and vision

City of Eaton Rapids

“Pairing the MERS Health Care Savings Program with Mercer Marketplace 365+ was not only a cost saving move for the City, it was also an empowering move for our retirees, who can now choose their own health care.”

Aaron Desentz
*City Manager
Eaton Rapids*



Key Resources and Actions to Take Today



Key Takeaways & Actions to Take



Health care is the most overlooked cost in retirement



Employers have a variety of options to support their employee's retirement readiness



Employees who understand their benefits are more likely to appreciate them



Preparing employees for retirement improves succession planning

Key Resources



Medicare.gov



Aptia365 Comparison



Using your HCSP



Retirement Health Funding Vehicle



HCSP Overview



457 Overview



IRA Overview



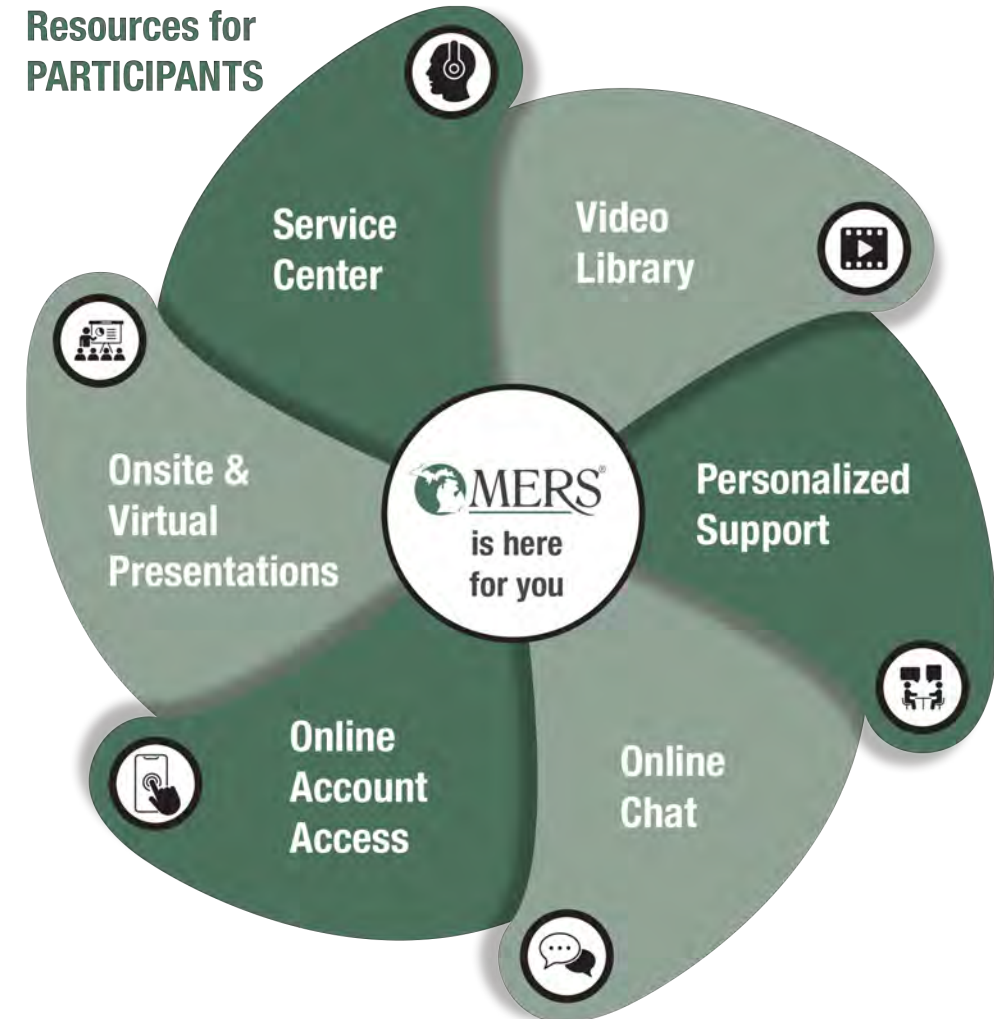
Case studies

Resources

Resources for EMPLOYERS



Resources for PARTICIPANTS



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This publication contains a summary description of MERS' benefits, policies or procedures. MERS has endeavored to ensure that the information provided is accurate and up to date. Where the publication conflicts with the relevant Plan Document, the Plan Document controls.

