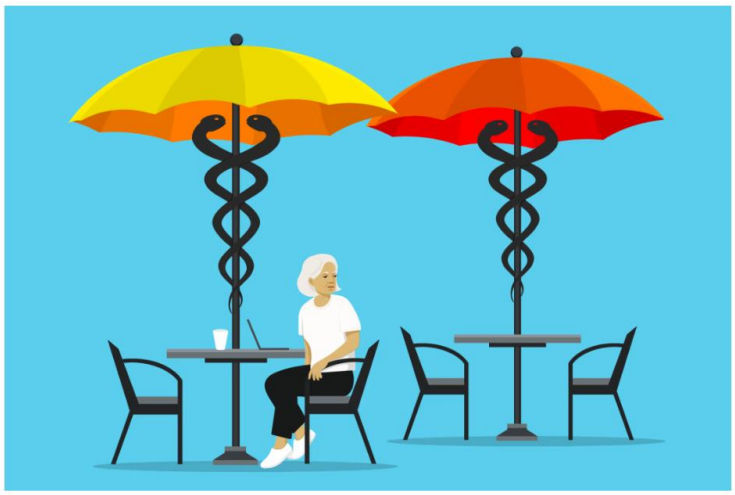
HEALTH • HEALTHCARE

Should You Keep Your Employer Insurance or Go on Medicare?

Workplace plans typically cost less for basic coverage, but Medicare often gives beneficiaries greater freedom to pick doctors and no surprises on expenses

By Gail MarksJarvis
Oct. 1, 2026 4:00 pm ET

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Turning 65 doesn't necessarily mean leaving your workplace health insurance and going on Medicare. For many Americans who work past 65, it brings a choice: Stick with your employer plan or see whether Medicare offers a better deal.

Many people are perplexed about that because they are bombarded by Medicare-related mail as they approach 65 and assume they must do something new, says financial planner Stephen Maggard of Columbia, S.C. "We call it the stack of confusion," he adds.

But there is no rule that requires a switch to Medicare for primary insurance at age 65 unless you work for a company with fewer than 20 employees. At larger companies, people who are happy with their work insurance can stay the course until they retire or find that Medicare is a cheaper or more-predictable option.

Financial advisers suggest examining workplace plans each year during open-enrollment periods in the fall to make sure favored doctors, drugs and hospitals are still covered and that costs haven't jumped. Here are cost and other considerations.

Medicare costs

Medicare comes in three parts. There is Medicare A, which covers hospitals and which people can get free if they sign up at 65 or later—even if they are on a workplace plan. There is Medicare B, which people pick to replace workplace insurance for doctors, labs and services such as physical therapy. And then there is Part D, a drug insurance plan.

Part D is a government requirement for anyone over 65 who doesn't have what is called "creditable" drug insurance at work, and skipping it can inflict a penalty for life. Likewise, there are penalties if people over 65 don't enroll in Medicare within eight months of quitting or losing employer-sponsored health insurance.

The primary decision for people who are still working at 65 or older is whether to sign up through the Social Security Administration for Medicare Part B. This year the average person on Medicare B would pay $202.90 a month in premiums, or $2,434.80 for the year. And for that they would be able to go to doctors, have lab tests, and see physical therapists without asking an insurance company for permission.

What people pay for Part D depends on the insurance company a person picks and the drugs they take, but the average monthly premium is $44. So with Part A, Part B and Part D, the average individual annual price tag is almost $3,000.

Still, there could be more expenses. Generally, Medicare pays only 80% of a person's doctor expenses and hospital coverage begins only after a patient covers the $1,736 deductible. As a result, a serious disease such as cancer or a major surgery could be expensive. So financial planners typically advise

buying a Medicare supplement insurance policy known as Medigap Plan G for people who can afford it. The premiums vary, but the national average for a 65-year-old was recently $217 a month for a Medicare supplement, according to the Medicare Payment Advisory Commission. That would bring the annual cost to just over $5,500.

Medicare Advantage plans are often cheaper than a Medicare/Medigap combination, but like workplace insurance, the plans typically limit patients to certain doctors, hospitals and drugs. And they make patients seek permission before certain procedures.

But the value of Medicare—with all the pieces of coverage—is that there are no surprises on expenses and freedom to pick almost any doctor or hospital without permission. When a person goes to a doctor or hospital that takes Medicare, they don't get a bill no matter how great the charge. The only thing they pay other than premiums is an annual deductible, currently $283 for Part B, at the beginning of the year and drug charges no greater than $2,100 for the year.

Workplace plan costs

Health plans at work are often cheaper than going on Medicare because employers pick up about 84% of the cost on average, according to healthcare researcher KFF. The employee's share for single coverage averages $1,440, or $120 a month. In addition, the average extra out-of-pocket spending is $869 a year for deductibles and copays and coinsurance that occur when the patient gets medical care.

But the actual expense could be much higher if the person has significant health issues and must pay a portion each time they see a doctor or get treatment. Under federal law, in-network expenses can't exceed $10,600 a year and KFF research finds that 72% of employees have limits no higher than $3,000 for care within a network. If a person needs expertise outside the network, however, the cost can be huge.

Still, assuming an employee's workplace plan simply costs a person just $2,309 a year for premiums and out-of-pocket extra charges, switching to Medicare would cost more.

Other considerations

High-income workers often have concerns about going on Medicare because of the Income-Related Monthly Adjustment Amount—the so-called Irmaa surcharge—added to Medicare Part B and Part D premiums. If an individual has had an income over $109,000, or a couple over $218,000, the government requires that they pay anywhere from $284.10 to $689.90 a month for each person on Part B and up to $91 a month for Part D drug plans.

Another hurdle is what to do when an employee's younger spouse is covered by a workplace health-insurance plan. If an employee wants to go on Medicare at 65, a younger spouse might not be eligible for the workplace insurance and won't be able to start Medicare until 65. So an employee might decide to keep workplace insurance instead of Medicare. Once both spouses go on Medicare, they each face their own premiums so as a couple their costs can exceed the $6,850 that is average for workplace family coverage.

A final stumbling block can be reluctance to give up a high-deductible insurance plan at work, which allows an employee to save money for retirement in a health savings account. These accounts carry tax advantages that can exceed 401(k)s and individual retirement accounts, and when people start Medicare they can no longer contribute to an HSA. That is true even if they stay on an employer health insurance plan and sign up only for Medicare A while delaying Medicare B for the future.

An annual decision

While there is no need to dump employer insurance if it has been reliable and cheaper than Medicare, financial advisers warn older workers not to assume it will remain that way simply because it has been dependable in the past.

"A lot of people stay with their plans at 65," says financial planner Justin Henrich of Kalamazoo, Mich. "They are in good health, and the next year the plan works, and then the next year the plan works, and then a year comes when it doesn't any longer. Doctors change, drug needs and coverage change, or the person suffers a health event."

At that point, he says, a worker would be free to contact the Social Security Administration and switch to Medicare.