Don’t Let Healthcare Costs Make You Sick

Planning done before retirement for quality healthcare will help alleviate the stress upon leaving the workforce.

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By Anthony Bartlett, ChFC

Rising health care costs and the effect on retirement planning can’t be overstated. There is a link between the two and it must be addressed to secure a comfortable and prosperous retirement. With people living longer, retirement can last 25-35 years. The average American is retiring earlier than previously, many before they are eligible for Medicare and no longer have employer-sponsored health insurance. Health care costs are among the largest expenses in retirement. As stated in the National Health Expenditure Data report from the Center for Medicare and Medicaid Services, on a per-capita basis, Americans spend approximately $11,500 a year on health care.

According to HealthView Services 2021 Retirement Healthcare Costs Data Report, for a healthy 65-year-old-couple retiring in 2021, depending on their state of residence, chronic conditions, and coverages choices, healthcare costs can range from $156,000 to more than $1,000,000. This does not include the cost of long-term care or dental insurance. For the average 65-year-old couple, who begin Social Security at that age, healthcare costs can consume 68% of their benefits. The trend of healthcare costs rising 2 to 2.5 times faster than overall U.S. inflation is projected to continue. In addition, the inflation rate for healthcare continues to outpace the rate of general inflation. Consider that today the average healthy male can expect to live to age 87 while a healthy female can expect to live to 89.

The increasing number of aging Americans is adding significant demand to an already overburdened health care system, resulting in health care system challenges and rapidly increasing costs running into the billions of dollars. Another consideration is that legislation can significantly impact the cost of healthcare. With the new administration and the potential for an expansion of the Affordable Care Act, costs could change one way or the other.

Planning done before retirement for quality healthcare will help alleviate the stress upon leaving the workforce. There are many decisions to make before retirement, including when to stop working, implementing a Social Security claiming strategy, generating cash flow by managing a distribution plan, and paying for health care. These decisions are interrelated and will make a difference if and when someone retirees and in their future lifestyle.

Health care costs are a major issue for working Americans and can quickly drain retirement savings. Not having employer-sponsored health insurance can leave people scrambling for coverage, a situation where the best choices are not always made. Planning can help a pre-retiree understand their options and reduce the stress of finding quality healthcare when they leave the workforce.

Healthcare is customized for each person based on their specific needs so no one size fits all. While short-term expenses for sick people, especially those with chronic conditions such as high blood pressure and diabetes, are higher than for healthy retirees, a longer lifespan means total medical costs are greater than those for the unhealthy who do not live as long. As stated above, the average healthy male can expect to live to age 87 while a healthy female can expect to live to 89. Those with chronic conditions can expect to live to a lesser age. Women have higher costs because they live longer than men and they tend to earn less while in the workforce resulting in lower Social Security benefits. As daunting as these are, there are things that can help minimize the impact of healthcare costs in retirement and that will not derail retirement.

Being healthier pays off in the long run. Exercising, eating right, and generally taking care of ourselves will impact the costs people experience for medical care. For example, many Americans are overweight or obese. Losing weight will minimize the cause of multiple medical problems.

Beyond the physical issues, there are things to do now.

1) Review the retirement plan to make sure healthcare costs are addressed.

2) Determine the approximate cost of healthcare in retirement, then build that into the plan.

3) Medicare is complicated, so it pays to learn about how the system works and what can be done to minimize costs. Most doctors accept Medicare Parts A and B but using a Medicare Advantage plan may be less costly if the physicians and medical services are in the network. Compare the cost of Medicare to Advantage plans.

4) All states don’t have the same healthcare costs—some are more expensive than others. This can impact Medicare Advantage plans, Medicare Part D premiums, Medigap premiums and out-of-pocket costs.

5) If retirement is still a ways off, fund a health savings account (HSA) to help lessen the financial impact of health care. Contributions are tax-deductible and withdrawals and earnings are tax-free. Once Medicare begins, contributions to an HSA are not allowed.

6) Consider long-term care insurance and dental care. Assisted living, nursing home, and at-home care are expensive, and some people who haven’t planned well have a financial catastrophe as costs can quickly run into

hundreds of thousands of dollars. Dental care can be one of the most expensive healthcare needs in retirement.

7) Managing retirement income by having an effective yet flexible distribution plan is essential. The higher the income, the greater the Medicare costs associated with Parts B and D so managing income for favorable tax rates is advantageous.

A detailed analysis of a person’s current healthcare costs is the first step in determining projected future health costs in retirement. Distribution planning using the buckets approach, Social Security claiming strategies, and customized analysis of future healthcare costs must be coordinated to achieve the desired results for a secure, confident, and comfortable retirement. Navigating the complexities of a successful distribution strategy is the only way to ensure a financially sound retirement since there is only one shot at having the right distribution plan. Using the buckets method, any assets over the amount required to fund the retirement plan can be allocated to a sixth or legacy bucket that can be used for healthcare expenses. Claiming Social Security benefits is more complex than many people think. The time spent determining the most advantageous claiming strategy is well worth it.

While many aspects of retirement can be daunting, proper planning can make it more enjoyable and less stressful. Working with a financial planning expert who fully understands the intricacies and complexities of the health care situation facing pre-retirees and retirees and knows ways to address the issues will achieve a positive outcome. It can be challenging, and at times difficult, to carefully plan for the best years of our lives, but it can be done and allows for a comfortable and enjoyable retirement.

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