Managing Health Care Costs In Retirement

You have probably heard the expression, "If you haven't got your health, you haven't got anything." Unfortunately, in a world of skyrocketing medical costs and low investment returns, many retirees are beginning to think, "If I haven't got my health, I won't be left with anything."

It's been getting harder to prepare for retirement, and changes in health care costs are a big reason for the sudden difficulty. However, while some medical expenses are inescapable, it is possible for individuals to fund a healthy retirement if they are willing to plan and investigate costs.

GROWING COSTS OF HEALTH CARE

There is little hope health care costs will recede anytime in the near future. Every year, the costs for everything from prescription drugs to hospital stays faithfully rise. No one is certain when the medical industry will make changes that might bring about a reduction or leveling of prices.

Rising health care costs should be a major concern for those preparing for retirement. Across the board, medical expenses are growing much faster than inflation. Retirees face the worst of it: age-related health issues increase the portion of their budget that goes to health costs and, with lifespans increasing, their years of care are mounting as well.

Though costs vary widely between individuals, it is estimated that the majority of today's retiring couples will face between $100,000 and $250,000 in medical expenses during retirement. Many Americans are not prepared for this huge financial commitment and need to take steps to either increase savings or make them stretch far enough to cover all medical needs.

HAVING A PLAN

Health care in retirement is all about realistic planning and knowing personal needs. The most important step is for a person to be aware of what their preexisting conditions will mean during retirement. A person in excellent health at age 65 will incur much lower costs than someone will with heart disease or diabetes, but is also much more likely to eventually need more years of long-term care.

People also need to consider their approach to diagnosis and treatment. One person might prefer to visit doctors when they feel unwell for more than a day, another might wait for a problem to persist for a month before reporting it. The former will have higher regular payments, but the latter runs the risk of having major expenses from a condition that was allowed to worsen.

Often forgotten, an important part of an overall health care plan (not limited to retirees) is creating an official health care directive. Usually in the form of a living will, people can layout rules for care in the event they are incapacitated and have little hope of recovery. Alternatively, people can grant power of attorney for medical treatment to a relative or trusted friend. Either document can reduce unnecessary medical costs at the end of life and, more importantly, grant survivors peace of mind about proper treatment when the unthinkable happens.

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SAVINGS STRATEGIES

There are a number of ways for retirees to reduce medical costs. The most effective method is simply to get as healthy as possible. Retirees who enter retirement in good health will not only incur fewer initial costs, but will be better able to enjoy themselves during retirement.

As stated earlier, a retiree's personal approach to seeking medical care influences expenses, many of which can be unnecessary if the wrong health insurance is used. This is most noticeable when Health Savings Accounts (HSAs) are ignored. HSAs allow a person to save money for medical costs in a tax-free account, but they are only available with high-deductible plans.

For a retiree who feels the need to visit his or her doctor frequently, it is better to use a low-deductible plan that will reach its limit quickly and put most of the costs on the insurer. However, if a retiree rarely goes to the doctor and has little chance of reaching his or her deductible, chances are good that an HSA will provide both premium savings and tax reduction (this is especially true early in retirement.)

It is important to remember that the HSA provides a valuable savings component that can be used either to pay for out-of-pocket costs tax-free or to save money for the future.

MEDICARE

Medicare can be one of the most influential ways to reduce health insurance costs in retirement. Government health insurance is available to retirees (typically at age 65) that is considerably cheaper than self-funded coverage. The Medicare program is available to retirees in three major parts:

- Part A: Hospital insurance that covers emergency care and hospice
- Part B: General health insurance that covers outpatient services, laboratory tests, mental health and regular doctor services
- Part D: Prescription drug insurance that helps pay for medication

People will often be told to begin Medicare coverage as soon as possible because of the low rates available and the penalties that could be incurred by delaying enrollment. (Both Medicare Part A and B carry penalties for those who do not enroll during three months preceding or following the month of their 65th birthday.) However, if an individual is still receiving insurance through his or her employer or a spouse's employer, immediate enrollment may not be the most efficient solution.

For the vast majority of people, enrollment in Part A of Medicare does not cost a monthly premium. Though immediate enrollment in a free program seems like the obvious course of action, some employers will cancel matched contributions to an HSA plan when an individual starts any part of Medicare. However, since the penalty for delaying enrollment in Part A only affects the small portion of people who have to pay the premium, HSA plan members may wish to wait until retirement to use Medicare.

Because Part B requires premium payments, individuals who already have quality health insurance through an employer may not want to deal with the extra expense of having double coverage. Part B allows individuals to delay enrollment without penalty if they are enrolled in employer or group health plans (COBRA and retiree coverage do not count as employer health plans). Individuals who pay for their own insurance will usually find that immediate enrollment in Part B to be the best choice.

If Medicare is used at the same time as a company health plan, it can become unclear which insurer provides primary coverage. It is essential that employees who intend to work past age 65 talk with their HR representatives and determine all the effects of Medicare enrollment. Only when existing coverage is understood can an individual find ways to lower costs.

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LONG-TERM CARE

Long-term care (LTC) programs, whether home care, assisted living or nursing care, are extremely expensive. On average LTC creates a bigger drag on retirement funds than anything else. Though not every retiree ends up needing LTC, its general use increases exponentially as retirees get older.

As costs and lifespans continue to increase, more and more insurance companies are dropping their LTC programs (though several still offer them.) LTC insurance plans are typically expensive and must be purchased while retirees are still in good health. Even though the insurance may go unused for many years, retirees will have to adjust their spending plans immediately to accommodate the high annual premiums. Making a generic plan for future LTC is as significant as any other part of retirement planning.

There are many factors to preparing for health care costs during retirement, and no two plans are going to be the same. It is important to research as many different insurance options as possible and find coverage that fits both your needs and your budget. If you have questions about health care strategies for your retirement, contact Monona Investment Services to review the expenses your plan is built to handle and the adjustments that can still be made.