

HOW WILL RISING HEALTHCARE COSTS AFFECT YOUR RETIREMENT?

It's no secret healthcare costs are going up. Medical expenses have been steadily increasing for years. In 2007, costs were up almost 12%. However, according to a June 2018 report from *PwC*, the rate of increase slowed to 6% in the last five years and that trend is expected to continue for the foreseeable future. While single-digit increases are an improvement, ever-rising costs are a concern for those who have to foot the bill, today and in the future.¹

Medical expenses are often the “elephant in the room” in a retirement plan. It's the expense people prefer not to consider because, if they do, they'll need to save significantly more money.



How much should you save for healthcare in retirement?

Healthcare costs vary as much as the health and circumstances of the individual. According to the *Fidelity Retiree Health Care Cost Estimate*, the average 65-year-old couple that retired in 2018 should have had about \$280,000 set aside for medical expenses in retirement, excluding long-term care. The estimate assumes the couple does not have employer-provided retiree healthcare coverage, and does qualify for Medicare.²

Fidelity anticipates retirees' healthcare savings may be spent like this:^{2, 3}

- 20% for prescription drugs (generic, branded, and specialty)
- 35% for Medicare Part B (medical insurance) and Medicare Part D (prescription insurance) premiums
- 45% for additional medical expenses such as deductibles, copayments, and supplemental insurance for doctor and hospital visits

Strategies for managing retirement healthcare costs

Whether you plan to retire in five, 10, or 20 years, there are a few things you can do to better prepare for healthcare in retirement:

1. **Do the math.** *Fidelity's* estimate is an average. Your healthcare situation is unique, so it is a good idea to create a more personalized estimate, one that includes the cost of various premiums and insurance costs, as well as prescription medicines.⁴
2. **Get the skinny on discounts.** No matter how old you are, your doctor and your pharmacist can provide valuable suggestions about how to reduce prescription drug costs. Don't hesitate to ask about coupons or discounts that could lower your costs. Pharmaceutical companies may have coupons available through their websites. Also, investigate other options such as substituting a generic drug, using a mail-order prescription service, or filling a 90-day supply instead of a 30-day option. Even small savings can add up over time.^{5, 6}

3. **Open a Health Savings Account (HSA).** Your employer's high-deductible health plan (HDHP) comes with a useful option – a health savings account (HSA). You can save for current and future medical expenses in an HSA, and they confer a triple tax advantage:
 - HSAs are tax-deductible
 - Any interest or earnings grow tax-free
 - Distributions are tax-free when taken for qualifying medical costs

If you don't spend the money in your HSA, you can roll it over to the next year. Also, the account is yours, even if you change employers. As a result, HSAs are a great way to save for healthcare costs in retirement.⁷

4. **Calculate when taking Social Security is best for you.** Since 2011, on average, people in the United States retire at age 61, according to a *Gallup Poll*. That's a year before they can start collecting Social Security. If retirees choose to begin receiving Social Security benefits at age 62, they will receive 70 percent of the benefit they would have received at 'full' retirement age. If they postpone taking benefits until age 70, they receive a higher monthly payment. The amount will be determined by an individual's age and year of birth, as well as the number of months benefits were delayed.^{8, 9, 10}
5. **Make healthy choices.** While it's impossible to predict what the future will hold, forming healthy habits today could support a healthier life ahead. You know the drill: eat well, sleep well, exercise, socialize, and so on. Being more health conscious today could mean fewer future doctor visits, hospital stays, health specialists, and prescriptions.¹¹

Save, save, save. The most obvious way to prepare for future healthcare costs is to save as much as you can today. If you can, maximize contributions to your employer-sponsored retirement plan, HSA, and Traditional and Roth IRA accounts. Don't look at saving more as a hardship. The decisions you make today will affect how you live in the future.

Healthcare costs are likely to be a significant part of your retirement budget. If you haven't already factored these costs into your retirement plan, you may want to consider it. The sooner you prepare, the better off you will be. Your financial advisor should be including these discussions in your retirement plans. Ask about your options today.

Sources:

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⁸ <https://news.gallup.com/poll/234302/snapshot-americans-project-average-retirement-age.aspx>

⁹ https://www.ssa.gov/OACT/quickcalc/early_late.html

¹⁰ <https://www.ssa.gov/planners/retire/delayret.html>

¹¹ <https://money.usnews.com/money/retirement/medicare/articles/2018-03-21/9-ways-to-reduce-health-care-costs-in-retirement>

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