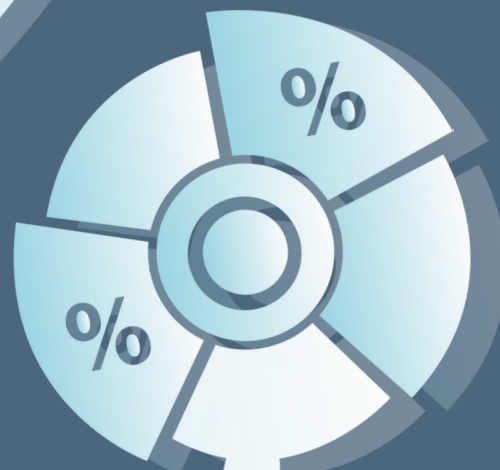


MEDICAL EXPENSES IN RETIREMENT

How to keep health
care costs in check.



Medical expenses may be the single greatest cost people face when they retire. In fact, a couple turning 65 in 2020 could need as much as \$295,000 to cover their health care needs in retirement, including the cost of prescription drugs, health care premiums and out-of-pocket expenses for doctor and hospital visits.

Fortunately, there are a number of resources available to help you manage these costs, including Medicare, long-term care insurance and health savings accounts. Medicare is the federal health insurance program for Americans 65 and older, and it is likely to cover many of your health care expenses. However, the program doesn't cover everything, which means you may need to purchase supplementary insurance or long-term care insurance to cover expenses, such as long-term nursing home stays, as you age. With an HSA, you can contribute tax-advantaged dollars before retirement and use those savings to pay costs related to both Medicare and long-term care insurance.

Here's a closer look at the role each of these tools plays in providing complete health care coverage as you age.

¹ Fidelity, "Planning for Health Care Costs in Retirement," 2020.

The Role of Medicare

Medicare provides health care coverage to 60 million Americans, or about 18% of the population. (Some younger people qualify for Medicare based on disability or illness, such as ALS or end-stage renal disease.) The program is broken down into four basic parts—Parts A, B, C and D—each of which covers different aspects of your health care and comes with different costs. In addition, Medigap coverage does just what it sounds like: It fills in gaps in your Medicare plan.

What does Medicare cover?

To get full coverage, most people need to sign up for Parts A, B, D and Medigap coverage. Alternatively, you could sign up for Part C, also known as Medicare Advantage, which is offered by private insurance companies that contract with Medicare. Here's a look at the coverage each part of Medicare offers.

Medicare Part A

covers hospital services, including in-patient stays, care in a skilled nursing facility, hospice care and some home health care. You can enroll in Part A at no cost if you've paid Medicare payroll taxes for at least 10 years.

¹ Kaiser Family Foundation, "An Overview of Medicare," 2019.

Medicare Part B

covers visits to the doctor's office and outpatient services. In 2020, individuals can expect to pay about \$144 each month on premiums for Part B, plus an annual deductible of \$198. Once you meet the deductible, Part B will cover 80% of approved costs.

Medicare Part C

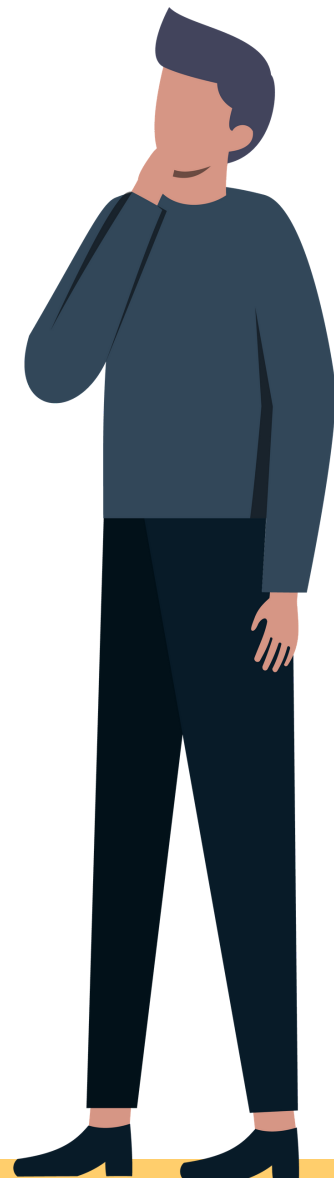
is also called Medicare Advantage and provides health care coverage via private insurance. It covers the same benefits as Parts A and B, but may offer additional coverage such as vision or dental benefits. It may also offer prescription drug coverage. Plan details and costs can vary widely.

Medicare Part D

pays for the cost of prescription drugs. Premiums and coverage vary depending on where you live and which plan you choose. No plan covers all drugs, so use Medicare's Plan Finder to locate a plan that covers your prescriptions. You can expect to pay about \$30 per month in Part D premiums in 2020, according to AARP.

Medigap Insurance

aka Medicare supplemental insurance—helps fill gaps in coverage in Medicare plans. You must have Medicare Parts A and B to qualify, and you cannot have a Medigap plan if you already have a Medicare Advantage Plan. Medigap plans can help pay health care costs such as copayments, coinsurance and deductibles, and they may cover costs that Medicare does not, like medical care when you travel outside the U.S. Medigap plans sold to people who are newly eligible for Medicare are not allowed to cover the Part B deductible. Note that Medigap plans must be purchased separately from Medicare.



Medicare at a Glance

Understand the basic parts of Medicare, what they cover and how much they cost.

Part A

Covers: Hospital services such as inpatient stays, care in a skilled nursing facility, hospice care and some home health care.

Cost: Coverage is free if you or your spouse have paid Medicare payroll taxes for at least 10 years.

Part B

Covers: Visits to your doctor's office and other outpatient services.

Cost: In 2020, the standard Part B monthly premium is \$144.60.

Part C (Medicare Advantage)

Covers: Provides health care coverage similar to Medicare Parts A, B, and D through private insurance companies.

Cost: Monthly premiums for Part C plans vary, but they average about \$30.

Part D

Covers: Prescription drugs costs.

Cost: The average monthly premium for Part D coverage is about \$33.

Enrolling in Medicare

Retirees become eligible for Medicare the day they turn 65.

Those already receiving Social Security are automatically enrolled in Parts A and B, also known as Original Medicare. Everyone else has an enrollment window of seven months, starting three months before the month in which they turn 65 and ending three months after the month in which they turn 65.

It's important not to miss this enrollment period. Doing so can lead to penalties, higher premiums and gaps in coverage. However, if you do miss the deadline, you can take advantage of the general enrollment period from January 1 to March 31 each year. If you're over 65 and lose employer-sponsored health care, you can enroll during a special enrollment period, and you are not subject to penalties.



Once you've signed up for Medicare you can make changes to your coverage each year during open enrollment, from October 15 to December 7.

Medicare Enrollment Checklist

Follow the steps below to get the coverage you need on time.

1. Know when enrollment begins.

You can enroll in Medicare three months before the month in which you turn 65, and the enrollment period ends three months after the month in which you turn 65.

2. Consider Part C.

Medicare Part C plans may offer more extensive coverage than Parts A, B and D. Also known as Medicare Advantage, these plans are sold by private insurers and may place limits on where you can get care. Medicare offers an online plan finder, where you can see which Medicare Advantage plans are available in your area and how much they cost.

3. Get organized.

To apply for Medicare, gather your Social Security number, original birth certificate and legal residency documents. Married couples must provide a marriage certificate. And you'll need proof of employer-sponsored insurance if you've delayed signing up for Part B and want to avoid penalties.

4. Enroll

If you've been collecting Social Security benefits for at least four months, you'll be automatically enrolled in Original Medicare when you turn 65. If this isn't the case, you can apply online, over the phone or in person.

5. Supplement if you need to.

If you decide to get Original Medicare and need prescription drug coverage, Medicare's plan finder can help you find a Part D plan that will cover your prescriptions. The same tool can help you find a Medigap insurance policy.

Understanding Medicare Premiums

Medicare doesn't cover all of your medical costs—you'll still have premiums, deductibles and copays just as you did with private health insurance.

Low-income individuals may qualify for a Medicare Savings Program, which helps cover out-of-pocket costs for Medicare, including Part A and Part B premiums, deductibles, copays and coinsurance. On the other hand, if you make above a certain threshold (\$87,000 for individuals and \$174,000 for couples in 2020), you'll have to pay higher premiums for Medicare Parts B and D coverage.

Long-term care insurance

Medicare covers many, but not all, of your medical costs as you age. Neither Medicare nor Medigap policies cover long-term care or assistance from nurses, therapists and other medical professionals for day-to-day tasks, such as bathing, dressing and eating.

If you're a healthy, active adult, you may feel you don't need long-term care insurance. Yet someone turning 65 today has a nearly 70 percent chance of needing long-term care at some point in their lives.³ And if you get sick or have an accident that requires an extended stay at nursing facility, for example, costs can quickly add up. Consider that the average cost of a semi-private room in a nursing home is more than \$6,800 per month.⁴

What does long-term care insurance cover?

Long-term care insurance pays for nursing homes that provide 24-hour care and room and board, as well as assisted living facilities. It can also cover costs of in-home care. Most long-term care policies allow for extended stays, while Medicare only covers short stays.

Some LTC policies pay for adult day care and home care. And some will cover modifications to your home, such as wheelchair ramps or remodeled bathrooms.

³ Longtermcare.gov, "How Much Care Will You Need?" 2020.

⁴ Longtermcare.gov, "Costs of Care," 2020.

When to buy long-term care insurance

Though it may seem counter intuitive, buying a long-term care policy a few years before you retire—while you’re relatively young and healthy—may be the cheapest option. If you wait until your health declines, policies will likely be more expensive, or you may not be able to find a one at all.

When applying for a policy, be sure to mention all pre-existing conditions. If you don’t and your insurance company finds out about an undisclosed condition, they may revoke coverage.

How to buy long-term care policies

Before you retire, you may be able to purchase a long-term care policy through your employer and carry it into retirement. If this isn’t an option, you may be able to find a group-rate plan from a professional association to which you belong or through other organizations, such as alumni groups. Alternatively, you can buy a policy from an insurance agent or broker.

How HSAs can Help

An HSA is a type of savings account that lets you set aside pre-tax money to pay for qualified medical expenses. It can help you pay for health services Medicare doesn't cover, such as copayments, coinsurance and deductibles. You can use funds from your HSA to pay premiums for Part A, Part B, Part D and Medicare Advantage plans. You can also use HSAs to pay for long-term care insurance premiums and qualified long-term services. However, you cannot use your HSA to pay for Medigap premiums.

How do HSAs work?

HSAs are specialized savings accounts that are designed to offer a tax-free way to cover out-of-pocket medical expenses.

As with tax-advantaged retirement accounts, such as 401(k)s or traditional IRAs, contributions to the account are made with pre-tax money. You can then invest your HSA funds, and any potential growth is tax-free. Individuals can contribute up to \$3,550 in 2020, and family can contribute \$7,100.

To be eligible to contribute to an HSA, you must have a high-deductible health plan (HDHP), which usually has higher out-of-pocket costs than most other plans.

You can withdraw money from your HSA tax-free at any time—even before you retire—as long as you're using it to pay for qualified medical expenses, such as doctor's office copays, prescription drugs, dental visits and even eyeglasses and medical travel.

Because HSAs allow you to set pre-tax money aside, your medical costs are effectively cheaper than they would be if you were using after-tax dollars. As a result, the savings you build in your HSA can be a great way to offset your medical expenses once you retire. It can be tempting to use HSA funds as a way to pay for current medical expenses while you're still working. But if you can leave your HSA savings untouched until you retire, they can become an important source of funds to cover retirement health care costs.

What's more, once you turn 65, you can use your HSA savings for any reason whatsoever. The only catch: You will pay taxes on withdrawals for unqualified expenses.

HSA Limitations

Unfortunately Medicare is not an HDHP, so your HSA contributions must stop when you join Medicare. If you have an HSA and haven't enrolled in Medicare yet, it may make sense to max out your contributions while you still can.

Filling the Gaps with an HSA

The money in your HSA can help you cover health care costs that Medicare doesn't pick up. While there is a long list of HSA-qualified expenses, there are a handful of unqualified expenses to be aware of.

Qualified Expenses:

- Medicare or Medicare Advantage premiums
- Deductibles
- Copayments or coinsurance payments
- Long-term care insurance premiums
- Costs to prevent, diagnose, treat and cure illness

- Over-the-counter drugs and medicines you receive a prescription for
- Prescription drugs and medicines, including insulin
- Transport to medical care



Unqualified Expenses

- Medigap premiums
- Over-the-counter drugs without a prescription
- Costs to support overall health, like vitamins or a gym membership

Though health care expenses may represent a significant portion of the total amount you'll need to spend in your retirement, you can help manage costs by preparing now. Learn how and when to sign up for Medicare. Enrolling on time can help keep your costs down and boost the number of options available to you. Consider purchasing long-term care insurance before you retire for the same reasons. And if it's possible, fund an HSA to provide a tax-advantaged pool of savings you can draw on to cover healthcare costs.

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About Us



Our principal belief is that everything begins with a well-designed financial plan. We're highly adept at seeing the big picture of your financial life, and then addressing all the details that make the plan work – including identifying and resolving any gaps that may have previously been overlooked.

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