WHY YOU SHOULD BUDGET FOR HEALTH CARE IN RETIREMENT

By: David Stubblefield, CFP®, CDFA™ Vice President, Senior Financial Planner

One of the most important and expensive considerations when it comes to retirement income planning is the rising cost of health care. According to the 2019 Fidelity Investments'® Retirement Mindset Study, 38% of the individuals surveyed said of the retirement unknowns they worry about the most, health care was their top concern.[1]

WEIGH THE BENEFITS OF EARLY RETIREMENT

Medical care will likely be a significant part of your retirement expenses regardless of when you retire, but it takes on an even larger role if you retire early. If you decide to retire before you are Medicare-eligible at age 65, you will have to explore interim coverage options. Assess the impact of purchasing private health care coverage into your portfolio withdrawals.

Many individuals planning retirement budgets underestimate future health care costs, mainly because they're unclear about what is—and is not—covered by Medicare. One of the most significant gaps in Medicare is the very limited financial assistance for long-term care.

PEOPLE FORGET ABOUT HEALTH CARE COSTS[2]

"Many retirees and people getting ready to transition out of the workforce forget to budget for health care when they estimate their expenses in retirement. Why? Their employer is often picking up the majority of the tab (usually about 75%) and the remaining cost (average is about 25%) comes out of their paycheck. They think they need the same amount of take-home pay that they currently have, but they forget that they will now be responsible for paying their health care premiums in addition to the out-of-pocket costs."

You will also need to pay out-of-pocket premiums for Medicare Part B, Medicare Part D, and ideally a Medigap Plan. You can also choose to go the Medicare Advantage plan route. The choices will greatly impact your out-of-pocket expenses for co-pays, outpatient prescription drugs, dental care, hearing aids, eye exams, and glasses.

The overwhelming number of decisions related to Medicare may cause you to delay enrollment. Learn why it is important to give yourself plenty of time to sort through the options and consider the following tips to help you have the financial means to continue the lifestyle you want in retirement.

MAINTAIN PERSPECTIVE

Not only have many retirees underestimated their health care expenses in retirement, but they also may have miscalculated the number of years they might need to cover those medical costs.

With increasing life expectancies, people are spending more years in retirement. About one out of every three 65-year-olds today will live until at least age 90, and one out of seven will live at least until age 95. Furthermore, married couples have at least a 50-50 chance that one spouse will live beyond age 90.[2]

Health care costs during retirement can vary significantly, and budgeting an appropriate amount is difficult to predict because of individual circumstances. According to Fidelity Investments'® 2019 Retiree Health Care Cost Estimate, "a 65-year-old couple who retired in 2019 can expect to spend $285,000 in health care and medical expenses over the course of retirement, up from $280,000 in 2018. For single retirees, the health care cost estimate is $150,000 for women and $135,000 for men."[1] Remember, these are estimates. Your costs can be higher or lower depending on number of factors including the medical coverage you choose.

Given the uncertainty, it's understandable why potential health care expenses coupled with longer life spans have many retirees concerned about outliving their retirement assets.

ADJUST FOR THE IMPACT

Flexibility should be a key component of any retirement plan. It is important to regularly review your retirement plan with your advisor to address the impact of potential health care costs on your financial goals. You may need to adjust your spending to accommodate changing medical situations and financial needs, including contingency funding for unexpected expenses. Strategies to address concerns such as major health issues and long-term care situations may require leveraging different types of insurance or investing in low-risk, low-return investments.

You want to periodically review your medical coverage as part of your larger income planning goal, as it is an important and essential expense in retirement. Budget for health care just as you would for housing, food, travel, and entertainment expenses.

MAKE INFORMED DECISIONS

Feeling confident that you're financially prepared for the potential impact of rising health care costs during your remaining retirement years is important. Commerce Trust Company will listen to your concerns and talk with you regarding any current or future health care costs that may require adjustments to your portfolio and retirement plan. Contact us today to learn more about how budgeting for rising health care costs now can help protect your financial well-being down the road.

[1] Source: 2019 Fidelity Investments® Retirement Mindset Study, https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/press-release/healthcare-price-check-040219.pdf.

[2] Source: Social Security Administration, Publication No. 05-10147, "When to Start Receiving Retirement Benefits," January 2020, ssa.gov.

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David is a financial planner with Commerce Trust Company. He is a member of the financial advisory services team, a dedicated financial planning practice within Commerce Trust that provides objective financial advice to clients. Following a thorough assessment of a client's unique situation and thoughts regarding wealth, David develops holistic and coordinated plans to help clients meet their short-term and long-term goals as well as take full advantage of various planning, tax, and investment strategies along the way. His areas of focus includes planning for financial independence, retirement, divorce, executive compensation, estate preservation, and business succession. David joined Commerce in 1995 and has held positions in private banking, credit analysis, commercial business development, and retail sales. David received his bachelor of science degree in business administration from Southeast Missouri State University. He holds both the CERTIFIED FINANCIAL PLANNER™ and Certified Divorce Financial Analyst™ designations. Additionally, David is a member of the Financial Planning Association and the Institute for Divorce Financial Analysts.