

# HOW TO PREPARE FOR HEALTHCARE EXPENSES IN RETIREMENT

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You have probably spent time daydreaming about retirement – exploring new hobbies, enjoying more time with the grandchildren and taking extended vacations. You have probably even calculated how much you will need to make your dreams a reality, but have you considered the potential impact of healthcare costs in retirement?

If not, you're not alone. A recent AARP survey of 1,000 people found just 36% of older Americans have planned and saved for out-of-pocket healthcare expenses after retirement.<sup>1</sup> With such little preparation, it is not surprising to learn that an overwhelming 84% of Americans remain worried about being able to pay their healthcare costs in retirement.<sup>2</sup>

Overlooking the impact of healthcare costs can upset an otherwise well-thought-out retirement plan. The following tips can help you prepare your portfolio for healthcare expenses in retirement.

## UPDATE YOUR PERSPECTIVE

With increasing life expectancies, people are spending more years in retirement. Unfortunately, many pre-retirees have underestimated their healthcare expenses in retirement and the amount of time they will need to cover these expenses.

According to the latest retiree healthcare cost estimate, a 65-year-old couple who retired in 2013 is estimated to need \$220,000 to cover medical expenses throughout retirement — yet nearly half (48%) of 55- to 64-year-old pre-retirees who responded to a survey believe they will need only \$50,000 to pay for healthcare costs in retirement.<sup>2</sup>

Having a reasonable understanding of healthcare expenses in retirement is an important step in protecting your portfolio.

## 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 healthcare coverage or self-insuring by incorporating healthcare costs into your portfolio withdrawals.

## FACTOR HEALTHCARE COST INTO YOUR INCOME PLANNING

Once you understand your health insurance options, you can factor insurance premiums — along with co-pays and prescription costs — into your income planning. Budget for these items just as you would housing and food expenses. You want to look closely at your anticipated medical costs as part of your larger income planning goal, because they are an important and essential expense in retirement.

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Contact a Commerce Trust professional to develop a strategy for your healthcare expenses in retirement.

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<sup>1</sup>2013 Health Care Costs Survey, AARP Research November 2013

<sup>2</sup>Fidelity Estimates Couples Retiring in 2013 Will Need \$220,000 to Pay Medical Expenses Throughout Retirement, Fidelity.com, May 15, 2013

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