FA Financial Alternatives
integrated wealth management

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Executive Summary

- The estimated cost for healthcare in retirement is upwards of $285,000 for a couple.
- Costs for women are expected to be higher then men.
- Much of the costs are from Medicare Part B and D premiums, as well as out of pocket co-pays and deductibles.
- Consider funding a Health Savings Account ("HSA") before retirement.
- Include your anticipated needs and prescription drug use when evaluating your Medicare options.
- Manage your income where possible to avoid costly surcharges on top of the base Medicare premiums.

Navigating the Labyrinth of Rising Healthcare Costs

It is a well-known fact that healthcare costs are on the rise. In this newsletter we will outline the extent as well as the tangible impact that these increases are likely to have on our population. We will also provide useful strategies for managing these expenses.

Healthcare on the up and up

Many people are aware that healthcare costs are rising but the extent of the increase is often not clear. Fidelity Investments estimates that for a 65-year-old couple retiring this year, the cost of healthcare will be $285,000 in their retirement years.[1] These costs are estimated to be substantial for single retirees as well, with women expected to pay $150,000 and the healthcare cost for a single male retiree estimated to be $135,000.

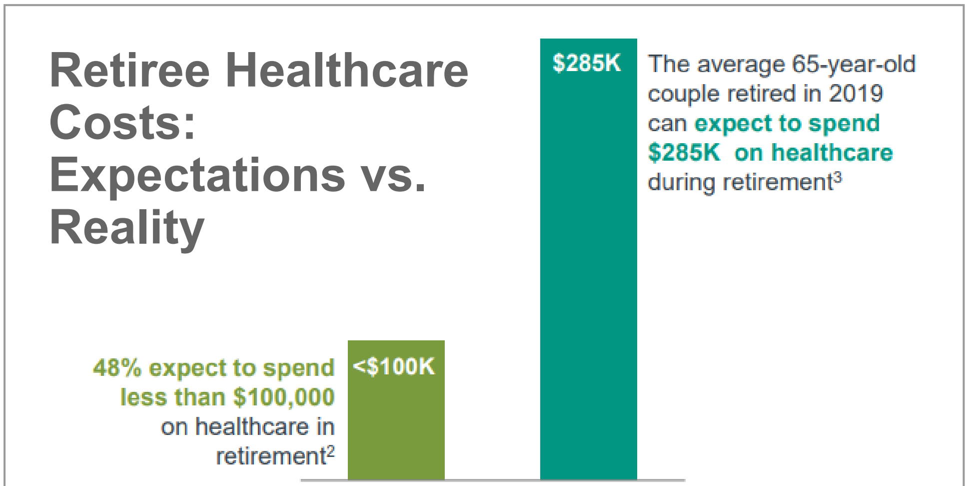
These staggering numbers naturally lead to the question of how these costs are broken out. Medicare Part B and D premiums account for a little less than 40% of the total. Co-payments, co-insurance, and deductibles are a slightly higher percentage, and prescription drugs are around 20%.

Healthcare cost management strategies for pre retirees or new retirees

There are several ways to manage healthcare costs. Many retirees are finding ways to reduce these expenses using planned saving strategies and by careful selection of their insurance options.

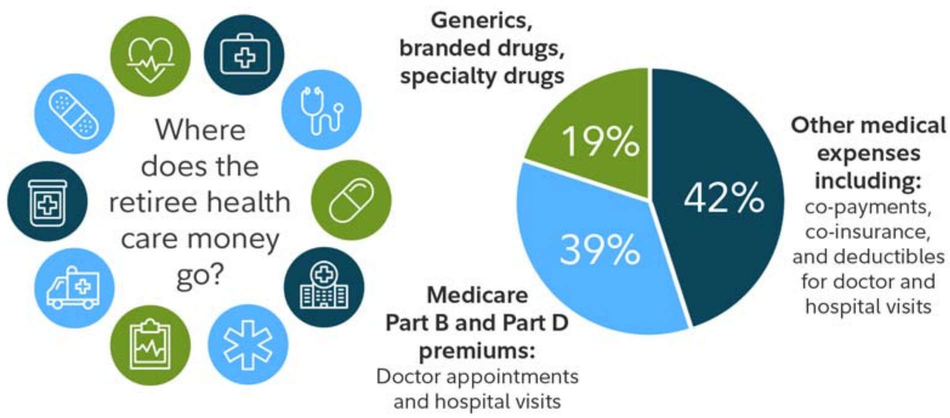
For those who are approaching retirement or have just retired, it is important to save and know what your options are. It may be beneficial to utilize a Healthcare Savings Account if you are able to do so through your employer. As with all financial matters, saving early never hurts.

Pre and early retirees are encouraged to evaluate their healthcare options when making decisions to join a plan. Have you considered your spouse's healthcare plan? You may also want to review the Covered California Health Plan (or applicable public marketplace) - a network of insurance providers offering affordable coverage at various tiered levels. Some retirees qualify for a Federal tax credit based up on their income. Medicare is an option for those 65 and over. Take some time to review your available benefits and understand what is and is not covered and purchase supplemental insurance if there is a gap in your coverage.



Source: Fidelity

[1] *2019 Fidelity analysis performed by its Benefits Consulting Group. Fidelity Benefits Consulting estimate; 2019. Estimate based on a hypothetical couple retiring in 2019, 65 years old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates with Mortality Improvements Scale MP-2016. Actual expenses may be more or less depending on actual health status, area of residence, and longevity. Estimate is net of taxes. The Fidelity Retiree Health Care Costs Estimate assumes individuals do not have employer-provided retiree health care coverage, but do qualify for the federal government's insurance program, Original Medicare. The calculation takes into account cost-sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by Original Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services and long-term care.*



Source: Fidelity

Healthcare cost management strategies for established retirees

For those who have been retired for some time, make sure to exercise proper diligence when signing up for Medicare during open enrollment. When choosing your Medigap (Medicare supplemental insurance) plan, be aware that the same plan offered by different insurance carriers may be priced differently - so it's worth shopping around.

As with any type of health insurance, you should weigh the premium and deductible amounts against what you anticipate your future expenses to be. You may be better off paying a higher premium but not having to pay out-of-pocket for doctor visits. Consider your health needs and factor in the number of visits and type of services you may require for the next year.

Also, manage your taxable income so you don't get hit by Medicare Part B and Part D surcharges. For example, a couple whose modified adjusted gross income exceeds $320,000 will need to pay $433 per month per person for Medicare Part B as opposed to $135 per month. They will also pay $103.40 per month for Part D rather than the $32.50 per month regular rate. These additional charges vary depending on income breakpoints set by the Medicare Modernization Act of 2003. If a surcharge applies, you'll receive an IRMAA (Income Related Monthly Adjustment Amount) letter informing you of the increase.

How can you avoid these surcharges?

One way to manage income is to do one or more Roth IRA conversions before turning 65 and up to age 70. This way, your RMDs (Required Minimum Distributions) will be smaller when you are required to take them which will reduce your taxable income. You may also use charitable gifting. Try bunching charitable gifts to create larger deduction or doing a qualified charitable distribution from your IRA. The latter will help you meet your RMDs without having to draw taxable income.

Also, if you have had a major life-changing event such as retirement, divorce, death of spouse or loss of pension income and your income has gone down, you may use the Medicare Income appeal form (Form SSA-44) to request a reduction of your Medicare premium for Part B and Part D.

Other ways to manage healthcare costs

There are a few other general guidelines that apply to all consumers:

- You should take advantage of employer or military retiree health care benefits such as Tricare if you are eligible.
- Don't forget about long term care costs! The cost of assisted living may be too onerous a burden for you to bear without long term care insurance.
- It always helps to live a healthier lifestyle and get regular checkups.

With proper planning, time and education are your best allies in managing healthcare costs. Please reach out to us if you have any questions on this subject and stay tuned for future articles!

All content in this newsletter is intended as general information, not specific advice. Information contained herein has been obtained from sources believed reliable, but not guaranteed.

Sources

*Fidelity Investments. (2019, April 1st). How to plan for rising health care costs. Retrieved from https://www.fidelity.com/viewpoints/personal-finance/plan-for-rising-health-care-costs*Fidelity Investments. Individuals are not prepared for the cost of health care in retirement. Retrieved from https://clearingcustody.fidelity.com/app/literature/item/9890242.htmlFidelity Investments. (2019, April 2nd). Health care price check: a couple retiring today needs $285,000 as medical expenses in retirement remain relatively steady. Retrieved from https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/press-release/healthcare-price-check-040219.pdf*

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