



## Retirement Health Costs: Planning For The Wild Card

By: Richard Eisenberd | PBS Next Avenue | September 12, 2014

Be honest, now: When you do your retirement planning, do you factor in potential health care costs and long-term care costs? Odds are, you don't, figuring there's no way to know what they might be — not to mention the subject is depressing and the numbers could be scary.

But ignoring what Ken Dychtwald, CEO of the aging consultancy [Age Wave](#), calls “the retirement wild card” could be the biggest retirement planning mistake you'll ever make. And you actually *can* plan for health and long-term care costs; I'll give you eight ways shortly.

Age Wave and Merrill Lynch today released a fascinating, if disconcerting report ([Health and Retirement: Planning for the Great Unknown](#)) based on a comprehensive survey of 3,303 adults. They call health care expenses “the missing link in retirement planning.”

### The Survey Says...

Five of the survey's striking findings:

- Health care expenses are the top financial concern for retirement among Americans age 50+, regardless of their wealth level
- Only 15% of pre-retirees have tried estimating how much money they might need for health care and long-term care in retirement
- Just 7% of those 55 to 64 feel very knowledgeable about Medicare options; a mere 19% of Medicare recipients do
- 71% of couples age 50+ haven't discussed how much they need to save to pay for health care during retirement
- Health problems were the No. 1 reason people retired earlier than expected

Nationwide Insurance has also polled boomers about retirement health care costs. “The one word that comes up is ‘terrified,’” says Kevin McGarry, director of the Nationwide Financial Retirement Institute.

The danger of not penciling out health- and long-term care costs, and taking steps to pay for them, isn't just that you might lack the money. “You could be putting a burden on your family,” says David Tyrie, head of retirement and personal wealth solutions at Bank of America Merrill Lynch. “That weighs very heavily on the boomer generation.”

It's time to stop resorting to the excuse that the costs are unknowable. “No one has a crystal ball, but you can be really diligent about the ‘what ifs,’” says Tyrie.

## What We Know About Retirement Health Costs

Here's what we *do* know — or at least what we know and what the experts estimate:

- A 65-year-old couple retiring this year will need an average of \$220,000 to cover medical expenses throughout retirement (in today's dollars, not including nursing home care or over-the-counter medications), according to [Fidelity Benefits Consulting](#).
- Out-of-pocket health costs rise dramatically as you age in retirement, nearly doubling every five years. The Merrill Lynch/Age Wave report cites a study estimating that someone retiring at 65 might pay \$50,900 out-of-pocket for a retirement lasting 10 years (until 75) but \$91,200 if it goes to age 80 and \$220,600 to age 90.
- Out-of-pocket health care spending is projected to increase by 5% or more annually through 2023, according to the [Centers for Medicare and Medicaid Services](#). (It rose 3.2% last year.)
- The median annual rate at long-term care facilities today is: \$87,600 for a private room in a nursing home and \$42,000 for assisted living, according to the [Genworth Cost of Care Survey](#).
- The average annual out-of-pocket cost for a good Medicare Advantage plan (Medicare coverage through a private insurer) runs roughly \$500 to \$1,500, according to [MedicareNewsWatch.com](#).
- A long-term care insurance policy for a 60-year-old couple costs about \$4,000 a year (depending on coverage), according to the American Association for Long-Term Care Insurance.

But here's what you *can't* count on: your employer providing health coverage in retirement. Only 25% of large firms that offer employee health benefits do so for retirees, down sharply from 66% in 1988, according to the [Kaiser Family Foundation](#). And nearly a third of those proffering retiree health benefits stop at age 65.

### The 4 Boomer HealthStyles

The Merrill Lynch/Age Wave study says boomers fall into one of four “HealthStyles”: **Challenged and Concerned** (32% and mostly women), who often have chronic conditions; **Healthy and Proactive** (29% and mostly women); **Course-Correcting and Motivated** (29% and mostly women), who have had a serious illness or diagnosis and **Lucky but Lax** (10% and mostly men), who are relatively healthy.

“Those who have invested in their own health do better, those who've had discussions with their spouses are less worried and those who've put financial actions into place feel more secure,” says Dychtwald.

### 8 Ways to Prepare for Retirement Health Costs

OK, now that you have a rough idea of the costs you incur and know which camp you fall into, how should you prepare if retirement is nearing?

**1. Stay healthy or get healthy.** You may not be able to reduce your risk of Alzheimer's says Tyrie, but you *can* take care of your health, which will keep your costs down.

**2. Estimate your potential out-of-pocket health- and long-term care costs.** Only 12% of people 50 to 69 have researched the cost of assisted living or skilled nursing, according to a new survey commissioned by the RiverWoods Continuing Care Retirement Community.

If you work for an employer, ask HR whether if there are retiree health benefits and, if so, what's covered, how much the insurance costs and long the benefits would last.

To run your health care and long term care expense numbers, I'd recommend seeking help from a financial adviser, a Medicare specialist or doing some internet research.

For Medicare, try the easy [Medicare QuickCheck](#) electronic tool on National Council on Aging's site, My Medicare Matters. It spits out a report to help you make wise Medicare plan decisions and get personal assistance.

You can get a rough estimate of how much your health costs might be in the year you turn 65 at the free site of [HealthView Services](#). You enter your age, sex and whether you have a chronic illness and voila! (I did this and HealthView says I should figure on \$7,668 to \$13,667). For \$500, HealthView will give you a detailed personal estimate with projections for health care and long-term care costs.

Financial advisers are becoming more helpful on the health care cost estimate front, as they grow more holistic and less investment-centric. As I [blogged on Next Avenue](#), Merrill Lynch hired a financial gerontologist who's working with the firm's advisers to aid clients. Financial planners at many firms are increasingly using software to let clients get an idea of what they might pay and then working with them to find the money. Advisers who work with Nationwide, for instance, can use the company's [Personal Health Care Assessment tool](#), which includes health and long-term care costs.

**3. Bolster your [emergency savings fund](#).** That way, you'll have cash on hand if an unexpected illness forces you into early retirement.

**4. Get real about what Medicare will — and won't — cover.** “Many boomers are under the impression their health care costs will be covered by Medicare. But the reality is, Medicare only covers around half your expenses. And you pay premiums — it's not free,” says Ron Mastrogiovanni, founder and CEO of HealthView Services, the retirement health care advisory firm. Medicare's site, [Medicare.gov](#), explains the program's coverage.

**5. Avoid falling into Medicare surchargeland.** Medicare beneficiaries with annual incomes over \$85,000 (over \$170,000 for joint filers) get socked with [premium surcharges](#) which rise with income and currently top out at \$2,772 a year — that's just the *surcharge*, not the premium.

Think you won't owe the surcharge because your income will drop once you quit working? Think again. "Medicare has a two-year lookback rule; it looks at your highest earning level over the previous two years," says Mastrogiovanni.

One way to lower your odds of being surcharged, says Mastrogiovanni, is to move some of your money into a Roth IRA or Roth 401(k), since that income isn't included in the calculation.

**6. Make plans for how you'd pay for long-term care.** The money might come out of your savings. Or you could buy a [long-term care insurance](#) policy. Or you may need to sell your home to help cover the costs of a facility or home care in an apartment.

**7. If you have a high-deductible health insurance plan through work, use a [Health Savings Account \(HSA\)](#).** "It can have a significant impact on how much you'll spend on health care in retirement," says Mastrogiovanni. HSA contributions and withdrawals are tax-free; you can keep the balance that's in your account when you leave your job and then pull money out for retirement health expenses.

This year, the maximum HSA contribution for employers and workers is \$3,300 for individuals; \$6,550 for family coverage.

**8. If you're married or have a partner, have a serious talk about how much money you both might need and where you'll get it.** Stuningly, only 15% of the "Lucky but Lax" couples surveyed by Merrill Lynch said they've talked about this.

Says Dorian Mintzer, co-author of [The Couple's Retirement Puzzle: Ten Must-Have Conversations for Creating an Amazing New Life Together](#): "It can actually feel quite liberating to talk about and plan for some of the changing health needs as we age — and to talk with the people we love about end-of-life plans and wishes while we're still alive and well.

*Richard Eisenberg is the senior Web editor of the Money & Security and Work & Purpose channels of [Next Avenue](#) and Assistant Managing Editor for the site. Follow him on Twitter [@richeis315](#).*

Original URL: <http://www.forbes.com/sites/nextavenue/2014/09/12/retirement-health-costs-planning-for-the-wild-card/>