How to Tame Health Care Costs When You Retire

Advance planning is critical and may help lower costs

Most of us look forward to retirement as a time to shift gears, worry less, and enjoy a slower pace of life. But that rosy picture can quickly change and include some sticker shock as retirement nears, especially when it comes to paying for health care. Are you prepared to answer these questions?

5 Five key health care questions to consider

HEALTH STATUS

Who will care for you?

Will you need to retire early? Will you need assistance from a family member?

GENDER

Are women prepared to pay more?

Since women on average live two to three years longer than men, they will need to save more for health care.

LONGEVITY

How long will you live?

Assuming you live to age 65, there's a 50% chance you'll live to 90 if female, 87 if male, and 94 if you're a surviving spouse of either gender.[2]

INFLATION

Does your retirement income plan factor in health care inflation?

Health care inflation outpaced the general rate of inflation by 3% from 2012 to 2016.[3]

GEOGRAPHY

Can you keep your doctor in retirement?

Some 88% of people have a regular place to get medical care, and 25% of retirees do not relocate in part because they want to be close to medical services they know and trust.[4]

Plan for rising costs and a longer retirement

The average 65-year-old retiree today can expect to pay around $6,000[1] a year on health care premiums and out-of-pocket expenses.

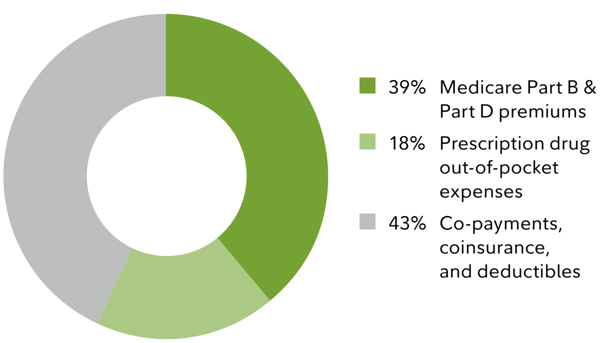
As life expectancies increase and people spend more years in retirement, the money set aside to pay for health care will have to last longer as well. Factoring in health expenses has become a critical part of retirement planning. Fortunately, there are steps you can take to ease your mind—and your budget—so you arrive at retirement with fewer worries about managing your health care costs.

1. Understand Your Health Insurance Options

To take control of your health care expenditures, investors need to educate themselves in terms of what their options for health expense coverage are—what they need, where they can get it, and the cost for that coverage. That education starts with understanding of the options for health insurance after retirement.

For most retirees, leaving full-time employment will mean leaving health care coverage behind. Today, only 24% of firms with 200 or more employees (and just 4% of small firms) still offer retirement health care coverage.[5] Even then, the plan may differ dramatically from its pre-retirement version. There may be different deductibles, co-pays, and other limitations, and you may be sharing a larger portion, or all, of the cost of the premium with your former employer.

WHERE DOES RETIREE HEALTH CARE MONEY GO?
Medical expense coverage sources for Medicare beneficiaries age 65 and over:



Source: Fidelity Benefits Consulting, 2020.

Medicare covers most retirees

While some people may have access to employer-provided retiree health care coverage, the government's Medicare health insurance is still the primary source of coverage for American retirees. Most automatically qualify for basic Medicare hospital insurance (known as Part A) as soon as they reach age 65. This coverage costs nothing if you or your spouse paid Medicare taxes during your working years.

On the other hand, Medicare medical insurance (known as Part B), which covers doctors' services, outpatient hospital care, and some other medical services, such as physical and occupational therapy and some home health care, is not free. You pay a monthly premium for Part B and there's no annual limit on your out-of-pocket expenses as there is with many private insurance policies. Additionally, you can elect to purchase a Medigap policy for supplemental coverage.

Medicare Advantage plans combine Medicare Parts A and B and supplemental coverage into a single policy. They are privately managed and can offer lower premiums or better benefits than a traditional Medicare setup where each part is treated separately. But these plans also can limit you to using only network providers.

To cover prescription drugs, you can purchase Medicare Part D prescription coverage to supplement Medicare (Part A and Part B), or a Medicare Advantage Plan (i.e., HMO or PPO).

Although selecting coverage from the many private insurance options available in your state to supplement basic Medicare can be time consuming, it can make a big difference in your costs.

The government's Medicare site offers access to tools that help you compare coverage in your state and find insurers that offer the best value for your needs. Go to Medicare.gov and select "Find health & drug plans."

And don't forget to ask prospective insurers if they have options to help you keep costs down, such as higher deductibles, discounts for healthy lifestyles, or using only in-network providers.

CHOOSE THE TYPE OF MEDICARE COVERAGE THAT IS BEST FOR YOU

Follow these steps to help you decide.

	Step 1	Step 2	Step 3
Original Medicare	**Part A** (hospital insurance) and **Part B** (medical insurance) • Medicare provides this coverage. • You have your choice of doctors, hospitals, and other providers that accept Medicare. • Generally, you or your supplemental coverage pay deductibles and coinsurance. • You usually pay a monthly premium for Part B.	Decide if you want prescription drug coverage (**Part D**) • If you want this coverage, you must choose and enroll in a Medicare prescription drug plan. • These plans are run by private companies approved by Medicare.	Decide if you want supplemental coverage • You may want to get coverage that fills gaps in original Medicare coverage. You can choose to buy a Medigap (medical supplement insurance) policy from a private company. • Costs vary by policy and company. • Employers/unions may offer similar coverage.
Medicare Advantage Plan (like an HMO or PPO)	**Part C**—Includes both Part A (hospital insurance) and Part B (medical insurance) • Private insurance companies approved by Medicare provide this coverage. • Most plans require use of plan doctors, hospitals, and other providers, or you pay more or all costs. • You usually pay a monthly premium (in addition to your Part B premium) and co-payment for covered services. • Costs, extra coverage, and rules vary by plan.	Decide if you want prescription drug coverage (**Part D**) • If you want prescription drug coverage, you may select a Medicare Advantage Plan that includes prescription drug coverage. • If your plan doesn't offer drug coverage, you can choose and enroll in a Medicare prescription drug plan.	• Note: If you join a Medicare Advantage Plan, you don't need a Medigap policy. If you already have a Medigap policy, you can't use it to pay for out-of-pocket costs you have under the Medicare Advantage Plan. If you already have a Medicare Advantage Plan, you can't purchase a Medigap policy.

Source: Medicare.gov, 2019.

What if you retire early?

If you retire before age 65, of course, you can't take advantage of Medicare right away. So if you don't have other coverage in the interim, you will need to enroll in your own insurance plan, or pay for your medical expenses out of pocket, while you await eligibility for Medicare. In that case, you have a number of options. They include:

- Paying to continue your current employer coverage for a specified time under COBRA
- Joining your spouse's company health care plan
- Purchasing a private medical insurance policy
- Using Veteran's Administration benefits, if you are a veteran
- Using Medicaid, if you qualify

As with any important financial purchase, think about the costs and coverage of your policy before you buy it, and look at the premiums you can afford, the deductibles, the available hospitals and doctors, the plan's quality-ranking information, the covered benefits, and the out-of-pocket expenses you will pay. Higher deductibles generally lower your costs, but require you to pay more up front before your coverage kicks in.

2. Factor Health Care Costs into Your Income Planning

Once you have a better handle on the cost of the insurance coverage you'll need, you can begin looking at your health care costs along with your other essential retirement expenses. On the financial side, you want to look closely at your anticipated medical costs as part of your larger income planning goal, because they are such an important and essential expense in retirement.

Most online retirement planning tools can help you create a ballpark estimate of how much of your budget for essential expenses should be allocated to medical and other health care costs.

You also can use Fidelity's annual Retiree Health Care Costs Estimate as a basis for planning. This estimate suggests that a 65-year-old couple retiring in 2022 would need $315,000[6] to pay for medical expenses throughout their retirement, not including nursing home or long-term care. This figure covers the cost of insurance premiums for Medicare Part B coverage and Part D prescription benefits, plus out-of-pocket expenses for co-pays, deductibles, and miscellaneous home care costs. It doesn't include additional costs for treating chronic conditions such as heart disease, arthritis, diabetes, or most dental services.

Based on currently available cost estimates, about 15% of the average retiree's annual expenses will be used for health care-related expenses, including Medicare premiums and out-of-pocket expenses.[7]

Another consideration is that 52% of people who reach age 65 will use some form of long-term care.[8] You might want to earmark a portion of your budget for purchasing long-term care (LTC) insurance as well. The cost is based on age, so the earlier you purchase a policy, the lower the annual premiums.

Whatever method you use to estimate your health care expenses, including them in your overall income planning helps you invest that amount appropriately so you can cover health care costs without having to sell or liquidate investments unnecessarily.

3. Take Advantage of All Possible Funding Sources

In addition to any employer-sponsored benefits, your retirement accounts, and personal savings, you may have other sources to help meet health care costs in retirement.

For example, if you have a Health Savings Account (HSA) that sets aside pretax money to be used for health care expenses, make sure you factor those assets into your planning calculations. On the other hand, if you haven't yet taken advantage of your employer's HSA-compatible health plan, think about using the health plan and an optional HSA to begin saving now on a tax-favored basis. Because you don't have to use money contributed to an HSA right away it can be set aside to cover qualified medical expenses in retirement—and you'll be able to withdraw it free of federal income taxes in the future.

Other sources of funds that might be available to cover your health care expenses include:

- **Voluntary Employee Beneficiary Association (VEBA) plans.** These are tax-favored trusts often set up to provide health benefits to employees of school districts, colleges and universities, state agencies, and union members.
- **Part-time work.** Keeping health insurance benefits is one of the leading reasons retirees continue to work.

4. Be a Smart Health Care Consumer

Here are a few ways to make sure you get the most from your health care dollars:

Be prepared. Be ready to give your provider the information that he or she needs—even to the point of writing down your questions or symptoms in advance of each visit. In addition to ensuring that your concerns are addressed efficiently (and you don't forget something important), this makes the best use of everyone's time. Because physicians and facilities typically charge based on the time and complexity of a visit, this is even more important if you have a high-deductible health plan where you shoulder more of the up-front costs.

Ask the hard questions. Make sure you get a clear description of any diagnosis and the doctor's proposed plan of care, free of confusing jargon. Ask about the benefits and risks of any procedures and know what outcomes you can expect. See if any alternative treatments are available and compare the cost and outcomes of those choices too. For example, would an outpatient procedure be a safe, effective, and lower-cost alternative to an overnight stay in a hospital? Would an X-ray be as good as an MRI for the situation? Again, if you're paying a larger portion of the costs yourself with a high-deductible plan, these decisions can have an immediate effect on your wallet.

Know what you're paying for. What are the charges, fees, and out-of-pocket costs you should expect for the recommended treatment plan? Are there any factors you should know about that could cause the anticipated expenses to increase? Remember, along with your patient privacy rights, you have the right to know as much as you can about the medical services being recommended, and their costs.

Being a good health care "shopper" may also help you lower your out-of-pocket costs for prescription drugs. Even with improved Part D insurance plans, prescriptions can cost thousands of dollars a year if you're treating a chronic condition.[9] So check with your doctor or pharmacist to see if there are safe, efficient, and lower-cost alternatives to any brand-name drugs you're using. Also, don't assume that your health plan's distributor offers the best price. Check to see if your plan has a mail order option, which is often more cost effective and typically provides up to three months' worth of medication at a given time.

Planning for health care expenses in retirement has never been more important. By carefully considering your needs, expenses, and financial resources ahead of time you will likely be in a better position to handle the costs when retirement finally arrives.

Covering health care expenses is a critical part of **planning for retirement.** Contact your financial representative to make sure your future is protected.

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[1] Based on the estimated average annual per-beneficiary cost spending for 2018.

[2] Society of Actuaries RP-2014 Mortality Table projected with Mortality Improvement Scale MP-2014.

[3] *Modern Healthcare*, "Healthcare price growth significantly outpaces inflation," 2018.

[4] CDC National Center for Health Statistics, http://www.cdc.gov/nchs/fastats/access-to-health-care.htm.

[5] Kaiser Family Foundation, Employer Health Benefits, 2016 Annual Survey.

[6] The 2022 Retiree Health Care Cost estimate is based on a hypothetical opposite-gender couple retiring in 2022, 65-years-old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates projected with Mortality Improvements Scale MP-2020 as of 2022. Actual assets needed 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 Cost 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.

[7] Fidelity Benefits Consulting estimate, 2019.

[8] U.S. Department of Health & Human Services, 2018.

[9] The Patient Protection and Affordable Care Act requires pharmaceutical companies to offer a 50% discount on brand-name drugs that fall into the "donut hole."

The Health Care and Education Reconciliation Act went further to reduce out-of-pocket costs by phasing out the concept of the donut hole in 2020.

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