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Building Health Care Costs Into Retirement Planning

By Amy E. Buttell

Health care planning is a sensitive subject that often takes you and your advisor places you don't want to go. But given rising expenses, no retirement plan is complete without some kind of provision for health care needs. Here are some guidelines and resources for estimating your needs and expenses.

Health care costs are rapidly emerging as a major expense item both before and during retirement. With lifetime employment a relic of the past and longevity on the rise, it's more important than ever to estimate how much to save to cover costs in retirement and include those expenses in your financial plan.

Not only are health care costs a huge factor in retirement, but they are also becoming a larger concern for pre-retirees. So the conversation about health care costs should not be confined to the years immediately before and during retirement.

Health concerns and health care costs should be an agenda item at each year's meeting with your financial professional—no matter what your age is. There are a number of issues

surrounding health care and health care costs to be aware of, including the impact of how you take care of health care costs, what issues you potentially face pre-retirement, what you need to do to prepare for health care costs in retirement, and continuing adjustments you might need to make in your spending and planning during retirement.

HEALTH CARE STATUS

There is one aspect of health care and health care costs that is controllable amid many that are not: whether you are in good health or not. For many with

poor health, discretionary spending on items such as vacations may have to be diverted into health care in retirement, an outcome that is preventable in most cases.

To determine the state of your current health, visit the [medicarenewswatch.com](https://www.medicarenewswatch.com) website. It defines three states of health—excellent, fair, or poor—very concretely in terms of number of doctors’ visits per year, number of hospital admissions, and number of prescriptions.

Table 1: Excellent, Fair, and Poor Health: Needs at Each Level

Health Status: Excellent Requiring occasional routine care	Health Status: Fair Requiring episodic care for non-chronic conditions	Health Status: Poor Requiring chronic disease care and management
Low annual utilization	Moderate annual utilization	High annual utilization
4 Doctor office visits (in network)	12 Doctor office visits (in network)	24 Doctor office visits (in network)
1 Urgent care visit (out of area)	1 ER & 1 urgent care visits	2 ER & 1 urgent care visits
0 Inpatient admissions	1 Inpatient admission (5 days)	3 Inpatient admissions (15 days)
2 Maintenance RX (90-day order)	4 Maintenance RX (90-day order)	8 Maintenance RX (90-day order)
1 Vision, hearing exam	1 Vision, hearing exam	1 Vision, hearing exam
1 Dental prevention visit	1 Dental prevention visit	1 Dental prevention visit

Source: MedicareNewsWatch.com

Based on data from the site and your location, you can determine the impact your health status might have on your expenses in retirement. The table below provides an example for residents of several different cities of the average annual out-of-pocket costs for Medicare Advantage plans based on the lowest-cost health plan in the site’s database. These costs include Part D (drug benefit) costs.

For many people in their early 50s, this is enough to motivate them to go home and get on the treadmill. Of course, there are circumstances that you have little control over, such as a cancer diagnosis. But even when disease cannot be avoided, becoming aware of the potential health care costs in retirement can make a difference in how you save and execute your financial plan.

Table 2: 2022 Average Annual Out-of-Pocket Costs for Medicare Advantage Plans

City	Excellent	Fair	Poor
St. Louis, MO	\$492	\$3,018	\$6,403
San Francisco, CA	\$695	\$2,635	\$7,103
Chicago, IL	\$499	\$2,790	\$6,610
Atlanta, GA	\$648	\$3,464	\$9,320
Austin, TX	\$527	\$3,067	\$7,932
Philadelphia, PA	\$559	\$3,172	\$8,317

Source: medicarenewswatch.com

PREPARING FOR RETIREMENT

While it's good to start thinking about retiree health care in your 40s or 50s, discussions should begin in earnest by age 63. Prior to that, it's difficult to get a handle on the specific costs you are likely to incur.

However, at 63, it's time to sit down and project actual costs. For couples, those costs are doubled—there are no health care discounts for couples. Topics to be reviewed include Medicare, including premiums and co-pays, out-of-pocket costs for items Medicare doesn't cover, and costs for unexpected events, like a major health crisis such as cancer.

Many experts recommend computing health care costs going forward with a higher average rate of inflation than other retirement costs—maybe as much as two to four times the Consumer Price Index.

Your 63rd birthday is also a good time to get serious about digging into which specific Medicare plans you will choose. Consider creating a step-by-step calendar of the dates involved in signing up for the various parts of Medicare.

IN RETIREMENT

The numbers involved in paying for health care costs in retirement are so large that it's easy to shy away from incorporating those numbers into your retirement plan.

Medical expenses can be as much as \$6,500 per person at the start of retirement. Some experts believe that a 65-year-old couple will need as much as \$315,000 for overall medical expenses in retirement, not counting long-term care.

The good news is that this amount is something you can save up front, as well as fund as you go. As you age, your health care costs typically continue to increase beyond even inflation, mostly because you are sicker and likely to require more hospital visits, more medications, and more care in the home or in a nursing home. A large portion of health care costs in retirement occurs in the last few months of life.

Amy E. Buttell has written about retirement planning for 14 years. She's been published in many recognized financial publications.

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