Eagle Strategies LLC

Protection

PLANNING ESSENTIALS

Planning for Healthcare Costs in Retirement

Accumulating and protecting wealth is the means to realizing your retirement vision. However, as you begin preparing for, and ultimately transitioning into retirement, new risks can take center stage. The rate of inflation, for example, becomes a much more important factor since you will no longer be able to rely on your salary increasing to keep pace. Whether market returns are positive or negative during the first few years of your retirement, that is, the sequence of returns risk takes on far greater significance. And perhaps the most challenging new risk is longevity.

Americans are living longer than ever; and it is redefining retirement. Not only has there been a gradual, steady shift in responsibility for retirement saving—from employer-funded pensions to employee-funded defined contribution plans—but people today need to plan for a retirement that may last 30 years or longer.

KEY TAKEAWAYS:

Between out-of-pocket Medicare premiums and deductibles and the costs associated with long-term care, healthcare expenses will be the single largest retirement expense for many people.

Estimating your individual costs will depend on a number of factors—from your personal health and family medical history, to your choices about Medicare coverage options, and whether or not you wish to insure against long-term care expenses.

The sooner you begin planning for healthcare costs, the more options you'll have available and the greater the likelihood that you and your advisor can devise a plan to protect you.

Longer, vibrant, active lives open up a world of retirement opportunities and possibilities. However, longevity also means you'll need to save more—not just to avoid outliving your retirement savings, but to offset the greater likelihood of incurring significant healthcare costs at some point during your life.

Estimating your healthcare costs

Along with retirement income planning, questions about healthcare costs tend to be a top-of-mind concern for many of our clients. When you're in your 50s and early 60s, you're probably wondering:

- How much will I need to budget for out-of-pocket healthcare costs?
- What expenses will Medicare cover and what expenses aren't covered?
- What's the best way to protect my assets from being consumed by long-term care costs?
- How will inflation affect healthcare costs a decade or more down the road?

Of course, your general overall health and your family history of longevity will have a significant impact on just how much your healthcare costs will be. However, on average, you can expect Medicare to cover about 80% of your healthcare costs.[1] Keep in mind that Medicare coverage options can be complex—requiring you to enroll in Parts A and B, or opt instead for Part C – 'Medicare Advantage.' Additionally, you'll need to make an active choice to enroll in Part D prescription drug coverage and/or to purchase any gap coverage. Your Eagle Strategies advisor can help you assess all your options and make the right choice for your circumstances.

Even with Medicare coverage, an average healthy 65-year-old couple retiring today can expect to pay about $315,000 to cover their out-of-pocket healthcare expenses throughout retirement (after tax).[2]

Don't overlook long-term care expenses

Did you know that most long-term care (LTC) costs like nursing homes and home health aides aren't typically covered by Medicare? Statistics show that 70% of people over age 65 will likely need long-term care at some point during their lives.[3] And with an average annual cost of $108,000 for nursing home care and nearly $62,000 for full-time home healthcare,[4] those expenses can quickly drain most people's retirement savings.

Rather than having to pay out-of-pocket for LTC costs, you might want to consider transferring the risk by purchasing an insurance policy with LTC benefits. There are several different LTC coverage options you could choose from—what's right for you will depend in large part on your personal preferences.

Make individual adjustments

There are several other personal factors which will likely impact how much you need to set aside to cover healthcare costs in retirement. Each will require you to make adjustments up or down to your cost estimate.

Make sure to account for inflation when estimating your annual costs. While it fluctuates, a good rule of thumb is to factor in a 7% increase in costs annually. You'll also need to adjust your estimate higher if you expect to earn significant income (in excess of $97,000 annually) in retirement. Why would this translate to higher costs? This would translate to higher costs as higher income levels trigger premium surcharges for Medicare. On the flip side, you can significantly reduce your cost estimate if you'll be eligible for any employer-provided retiree healthcare coverage. Your advisor can assist in making all of these adjustments.

Most importantly, it's never too late to start taking positive steps towards maintaining a healthier and more active lifestyle. Maintaining a good exercise and nutrition regimen, as well as keeping yourself socially engaged—both leading up to and during retirement—will help empower you to enjoy a fuller and more active life.

Start planning today

Given the magnitude of the potential expense, healthcare cost planning should be an essential part of every retirement income plan. As you get closer to retirement, you will be able to accurately forecast those costs based on your own health, as well as any new laws, program modifications, or tax law changes. Nevertheless, there are many variables and considerations involved, so lean on your trusted Eagle Strategies advisor for assistance.

[1] UHC.com, "What is Original Medicare?".
[2] NAPA, "Surprising Findings Behind Fidelity's 2023 Retiree Health Care Cost Estimates," June 2023.
[3] Forbes, "Most Americans Are Unprepared for Long-Term Care Costs, New Research Shows," August 2022.
[4] Genworth Cost of Care Survey 2021.

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