

Rodger on Retirement

Don't Forget Health Care Expenses In Retirement!

Many Americans believe that, by contributing to their 401(k) plan or IRA account and letting the balances compound year after year, they should be prepared for a secure retirement. They mistakenly assume that they will one day march down to the local Social Security office, sign up for retirement benefits and “they’re done.” And, oh yeah, there is that Medicare thing too! Nothing could be further from the truth. You see, much of what just occurred in the last few sentences was based on assumptions. The 401(k) plan should suffice, says who? The IRA account will carry through retirement, says who? It doesn’t matter when you sign up for Social Security benefits, says who? Medicare shouldn’t be too complicated; after all, I’m a smart person, says who?

Confusion about Medicare and health care expenses in retirement is rampant. According to a 2013 Nationwide Mutual Insurance report, “*Health Care Costs in Retirement*,” out of 801 respondents, four out of five people cannot accurately estimate how much they expect to pay for health care in retirement.

If that wasn’t sobering enough, AARP estimates that “Medicare covers around one-half of retirees’ total health care expenses, leaving many individuals largely responsible for the rest of the costs.”¹

Thinking that the most important decision in retirement is whether to grow tomatoes or cucumbers in your garden without serious considerations about health care expenses is like sailing a ship into a harbor and not knowing there are rocks underneath the keel. Plainly stated, you *must* plan for how you will pay for health care expenses and health insurance premiums in retirement. Any strategies that do not include these potentially large expenses are seriously lacking. Face it, as you create a strategy to save and invest for your retirement, you would be foolish to ignore the potentially tremendous expense of future health care.

An article entitled “Health Care Costs for Couples in Retirement Rise to an estimated \$260,000, Fidelity Analysis shows,” appeared August 16, 2016 on the Fidelity Investments website. The article went on to say “paying for health care can be one of the largest expenses for people in retirement. A 65-year-old couple retiring in 2016 will need an estimated \$260,000 to cover health care costs in retirement, according to Fidelity’s Retiree Health Care Cost Estimate. This is a six percent increase over the previous year’s estimate of \$245,000 and the highest estimate since calculations began in 2002...”

While detailed information about Medicare is beyond the scope of this article, be aware that you are eligible for Medicare benefits in the month you turn age 65. The decisions that you make about Medicare are some of the most important decisions you will make. Many retirees are surprised that as their modified adjusted gross income (“MAGI”) rises, so does their monthly Medicare premiums. Note that MAGI even includes tax-exempt interest from municipal bonds. Countless seniors mistakenly believe that these premiums will not be a major expense when, in fact, they are. I recommend that you seek out competent and professional assistance if this is not your area of expertise.

There is an entirely separate dimension to health care costs in retirement and that has to do with long-term care expenses. Many are aware of friends, family members or colleagues that have spent time in a nursing facility. Whether they are assisted living facilities, nursing homes or other types of care facilities, they have one thing in common—they are *expensive!* Perhaps you will never have the need for long-term care, but will your family members be as fortunate?

There is a great deal of available information related to health care expenses in retirement, and I urge you to discuss this important issue with the quarterback of your team—your retirement planning professional.

*Opinions expressed are those of Rodger Alan Friedman. All opinions are as of this date and are subject to change without notice. ¹AARP Public Policy Institute, *Setting the Record Straight about Medicare*, Feb 2012. This information has been obtained from sources considered to be reliable, but we do not guarantee that it is accurate or complete.