



Managing Health Care Costs in Retirement

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It’s no secret that as people age, their bodies tend to break down. Joints begin to ache, backs become stiff and sore, and overall it becomes more and more difficult to stay healthy. Not only does health care become more necessary as individuals grow older, it becomes more expensive too.

Health care costs are rising

Overall health care costs are expected to rise by an average of 5.5% per year over the next decade growing to \$6 trillion by 2027. In fact, health care spending is projected to grow faster than the economy.¹

With such potential high-cost increases, Social Security’s cost-of-living adjustment may not be able to keep up, especially considering all the uncertainty with the program’s funding. On top of all of these issues, modern medical technology is keeping people alive for longer than ever before, and life expectancies continue to increase over time.

Three-quarters of retirees and two-thirds of workers feel confident they will have enough money to take care of medical expenses in retirement. In addition, one in three retirees say they are reserving money to help ensure they have enough for health and long-term care expenses.²

Despite their confidence, the health care realities retirees face could significantly reduce their overall savings. In fact, lifetime health costs for most couples retiring in 2021 could range from \$156,208 to \$1,022,997. Factors that most strongly impact expenditures include coverage, health, longevity, income, and state.³

Combatting costs prior to retirement

One way to keep health care costs lower as you age is to try to live a healthy lifestyle. A healthier lifestyle will often lead to fewer health issues down the road; therefore, lowering health care expenses.

Diet and exercise are usually the two biggest areas where individuals struggle when trying to live a healthier life, but they are not the only things to keep in mind. Getting proper sleep is another major factor in an individual’s health.

Stress is also a major health consideration that doesn’t always get the attention it deserves. Staying relaxed and keeping blood pressure

down can really pay dividends in the long run. Often individuals may face a great deal of stress in their careers, as their families grow, and many other areas of their lives. Many people choose to use exercise as a means of helping them lower their stress levels. However, everyone is different. You should look for an approach that works for you.

Plan ahead for health care costs

Another way to get the upper hand on these large expenses is to treat them as a certainty rather than a possibility. By saving for these costs early, it will be easier to cover ground when the expenses occur. Depending on the benefits an employer provides, you may have the option of participating in workplace savings plans to help fund retirement. IRAs and 401(k) plans are two common options used by employees. These retirement savings vehicles have restrictions on taking money out too early, and often an employer will match employee contributions up to a certain percentage. These accounts are a great tool for saving for retirement, but most people would prefer to not spend everything they save in an IRA or 401(k) on health care. This is where a health savings account (HSA) could be worth considering.

HSA Benefits

An HSA requires the individual to have a high-deductible health plan (HDHP), which has lower monthly premiums than a traditional insurance policy. You fund an HSA with pre-tax dollars, so using those untaxed funds to cover out-of-pocket medical expenses can work to effectively make health care more affordable. Another benefit of an HSA is that the unused funds roll over from year to year, and may even earn interest. Unlike a flexible spending account, there is no threat of losing funds that are not spent. An HSA can also be transferred from job to job. Most individuals who have HSAs use them to cover current health care costs, but there are potential tax benefits in using them to save for health care expenses incurred in retirement.

One benefit is the account balance grows tax free. Interest, capital gains or dividends that are earned

are not taxed, allowing for much more growth within the account. Another benefit is that contributions to an HSA are tax deductible. If an employer makes contributions for the employee, those contributions are not counted as part of the employee's taxable income. The third tax benefit is that withdrawals for qualified medical expenses are not taxed. However, the withdrawal is subject to a 20% penalty and income taxes on the funds that are not used for a qualified medical expense. There are no age restrictions on withdrawals, although contributions are no longer allowed once an individual has reached age 65 and is eligible for Medicare.

If this account may be used to fund medical expenses in retirement, a good strategy is to maximize the contributions prior to age 65. If you choose to use an HSA to fund retirement health care expenses, view the HSA as an investment. This means that during working years, you should try to avoid taking money out of the HSA, choosing instead to pay cash out-of-pocket for medical bills.

Another consideration when looking to use an HSA to fund retirement expenses is the investment strategy of the funds. HSAs have a more flexible investing structure, similar to an IRA. However, different HSA administrators have different investment approaches for the accounts. For example, some may only allow the money to be invested into a savings account. It is important to shop around and find an HSA with the right investment opportunities for your unique situation.

Consider variables that impact costs

To get ahead of health care costs, you need to plan to cover a wide variety of possibilities. Look at aspects such as how expenses change with



increased life expectancies. It is also important to understand how preexisting conditions (and not having them) impacts the cost of health care. Knowing how you use health care is another factor to consider. For example, someone who visits the doctor often should factor this in to the health care they are planning on paying for. The difficult aspect of planning for health care expenses in retirement is the fact that there are many unknowns. Longevity, interest rates and returns on investments, changes to public policy and health status are just a few of the wide variety of factors to be considered. However, that uncertainty is also what makes planning even more crucial.

Options, considerations and funding strategies within retirement

One of the most well-known and frequently-used funding options for health care costs during retirement is Medicare. Medicare is broken up into parts that focus on different areas of health care. The program has requirements that an individual must meet to qualify, such as reaching age 65 or receiving Social Security Disability Insurance (SSDI) checks for 24 consecutive months.

Medicare part A covers services and supplies considered necessary to treat a condition and is sometimes referred to as hospital insurance. This includes hospital care, skilled nursing facility care and hospice, among others. Part A coverage often does not require a monthly premium, as most individuals pay in through a federal tax during their working years. If you have part A coverage, you are typically required to also have part B.

Medicare part B coverage is also known as medical insurance and covers costs like outpatient care, ambulance services and durable medical equipment. You pay a monthly premium. The premiums are calculated individually using your modified adjusted gross income. If an individual is receiving Social Security and has Medicare premiums to pay, those premiums will be deducted automatically from the Social Security monthly payment. Parts A and B are the most common Medicare segments and also come together to form Traditional Medicare.

Medicare Advantage, otherwise known as part C, incorporates Medicare's private plans. Medicare-approved private insurance companies run the plans and pay a predetermined amount each month for an enrollee's care, regardless of what was needed. To enroll, an individual must also be enrolled in parts A and B and continue paying the monthly premium for part B. Plan options can include a Health Maintenance Organization (HMO), Preferred Provider Organization (PPO) or a Medical Savings Account (MSA), among others. These plans can vary greatly in both benefits and costs.

Medicare part D covers prescription drugs. In most plans, drugs are separated into several tiers. These tiers are typically determined by cost, so if you are prescribed a drug on a higher tier than what your plan covers, an exception is needed for a lower copayment. Part D also has premiums determined by your means, similar to part B.

Enrolling in Medicare has some required steps that must be taken to avoid a penalty or period without coverage. The initial enrollment period begins three months prior to the month in which you turn 65. It ends three months after the month in which you turn 65, making it a seven-month enrollment period. There is also a general enrollment period each year from January 1 through March 31 if you meet certain qualifications. If you sign up during this time, your coverage will start on July 1.

Medicare plans do not cover all health care costs, so you can purchase Medicare Supplement Insurance, or Medigap. To get a Medigap policy, an individual must already have Medicare A and B. A Medigap policy requires a monthly premium paid to the private insurance company the plan was purchased from. Medigap policies only cover one person, so a couple must buy two separate policies. Medigap



costs vary by state, and it is important to note that Medigap policies also do not cover everything, so just because an individual buys a policy and has Medicare does not mean they are fully insured.

Many retirees use Social Security to fund health care in retirement. It's important to remember that Social Security was originally designed as a supplement to income or what has previously been saved. Whereas Medicare is a specific health care plan that retirees can buy into, Social Security is basically an income stream.

Sometimes you can retain health care coverage through a former employer with a group health retiree insurance plan. This is not required of employers, so benefits and premiums can be changed, and sometimes coverage can even be cancelled. You should be aware of the type of coverage that is offered through the plan, whether a spouse is covered by the plan, and if the coverage will remain in place once the individual is eligible for Medicare. Medicare will pay first after an individual is retired, so many retiree plans offer similar coverage to a Medigap policy.



Finally, take advantage of any options that may present themselves for paying less for health care. If you reach age 65 and are still working, you can start using Medicare along with retaining your current coverage.

Retirement should be a time of relaxation and enjoyment. You should be able to travel, spend more time on a favorite hobby and enjoy the company of you family without worrying about the possibility of financial burdens.

Planning for potential costs is a major first step. You can also create a health care directive or assign a power of attorney in case you are no longer able to make decisions due to an illness or injury. When planning for retirement, have a conversation with your family about possible health-related issues.

Overall, the best way to approach health care expenses in retirement is to be prepared and well-informed. While we can't predict the challenges we may face in retirement, the more that is planned for the more one is ready for. Meet with an advisor today and discuss health care needs and options in your retirement future.

For more information visit: marinerwealthadvisors.com

¹ ["Health Care Costs for Americans Projected to Grow"](#)

² ["2021 Retirement Confidence Survey"](#)

³ ["2021 Retirement Health Care Costs Data Report"](#)

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