

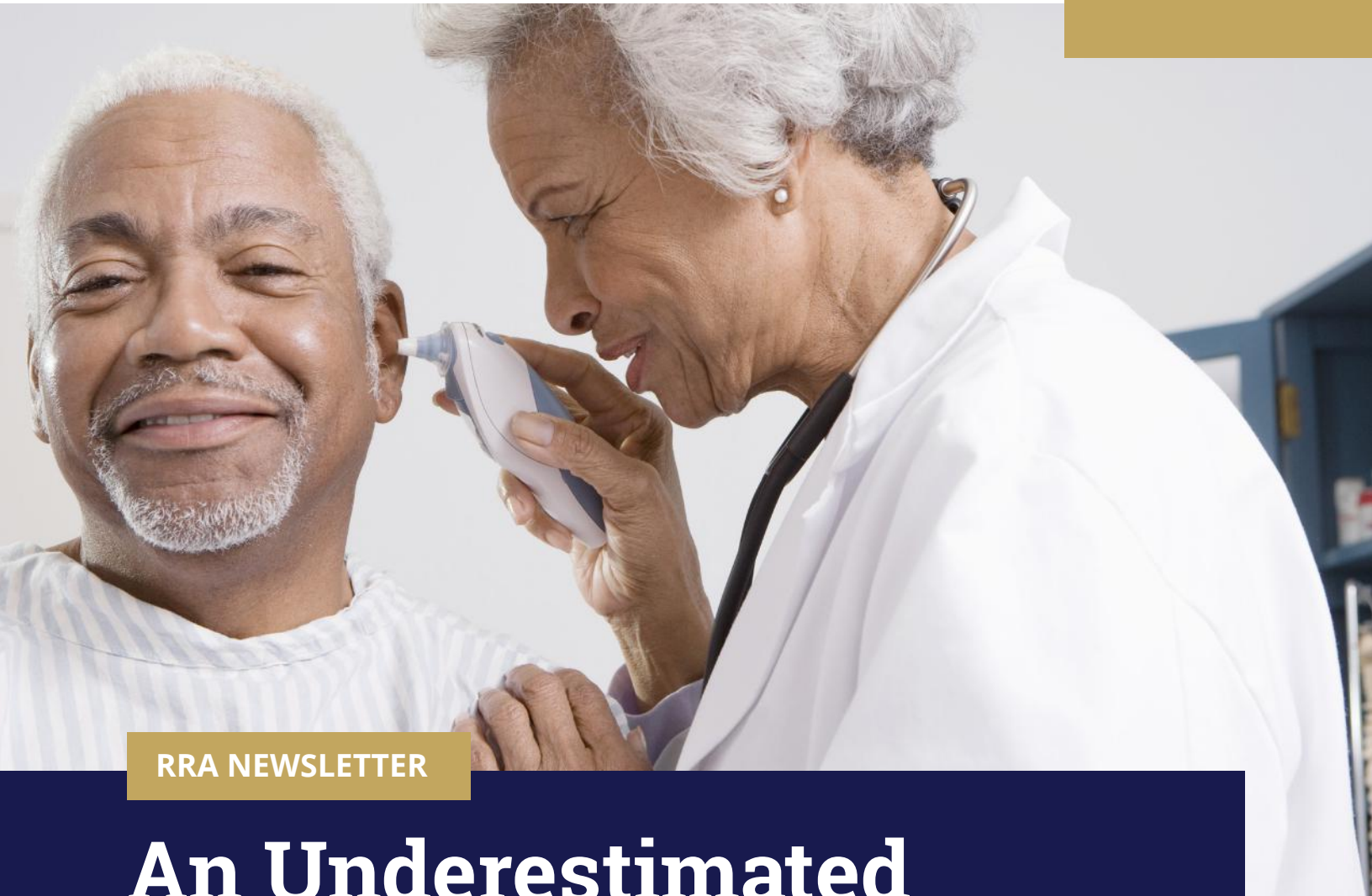


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RRA NEWSLETTER

# An Underestimated Retirement Risk: Don't Forget About Health Care Costs

With health care costs on the rise, knowing now why and how to plan for health care costs in retirement could save you tens of thousands of dollars.



How are you to account for health care costs while retirement planning? Oftentimes, these expenses are underestimated. Even though Medicare Part A is free and covers hospitalization, the remainder of Medicare comes with premiums and the rest of health care and drug costs are out-of-pocket even with supplemental insurance.

## ***Why are health care costs underestimated?***

CPAs transitioning into retirement often do not consider that what they were paying in premiums is not the full amount. Thinking they need the same “take-home pay” folks forget that their employer was paying a good chunk of the premium costs when budgeting and the rest was coming directly out of their paychecks. Now, facing retirement, CPAs are responsible for out-of-pocket costs and the full premium.

## Familiarization with Health Care Premiums



*Having Medicare Part A helps immensely when it comes to health care costs, especially since it is free. However, you will be responsible for other premiums to help cover medical expenses.*

- 1. Medicare Part B: In 2022, premiums increased to \$170.10 monthly. Note in the future this will increase.*
- 2. Medicare Supplemental Insurance: For coverage not offered through Part A or Part B of Medicare, supplemental insurance is available. This will help with medical expenses, but does not cover dental, hearing, or vision.*
- 3. Medicare Part C: Known as Medicare Advantage, these policies vary in coverage and price, but offer options including Part A, Part B, hearing, dental, and even vision. Furthermore, Part D (prescription drug coverage) is also included.*
- 4. Medicare Part D: As coverage for self-administrated prescription drugs, Part D requires a co-pay per prescription. Unfortunately, some drugs are not covered.*
- 5. Long-term care insurance premiums: Medicare only covers so much of long-term care costs after a certain amount of time, and even then, it will add up quickly daily. To make sure you are covered, building a LTC policy to your wants and needs is best. This is an important factor to consider for retirement planning because 70% of retirees*

# *How much could coverage and any out-of-pocket costs be then?*

## Knowing Total Health Care Costs

Adjusted for inflation, in 2021 multiple studies found that retirees were spending about \$6200 on premiums and approximately \$6500 on out-of-pocket costs for health care. For 2022, the projected amount for out-of-pocket costs is \$7000. And with rising health care costs and inflation, the average expenses are predicted to increase by a minimum of \$3500 by 2030.

## Longevity and Health Care Costs

The longer you live the more expensive your health care will be. Longer lifespans go hand in hand with more medical expenses, more preventative care, etc. With inflation and rising medical costs, CPAs who are retirement planning are expected to face \$450,000 in health care costs during retirement (without long-term care considered). Long-term care alone can be \$230,000-\$370,000. Annually, folks needing long-term care spend about \$140,000 out of pocket.



## Ways to Help Lower Health Care Costs

**Regular visits to your healthcare professionals** – A healthy life begins with regular medical care. Seeing your primary care lessens the burden of mounting medical bills. Discuss with your doctor family history, personal medical history, and preventative care. Your doctor may be able to identify health issues early on which leads to earlier intervention and treatment. The same applies to your eye doctor, dentist, and mental health specialist.

**Tax-efficient distribution management** – Keeping your taxable income lower is a good place to begin especially if you are a high-income earner. If you make over a certain amount, your Medicare premiums are likely to be higher. Some distributions are not used in Medicare premium formula calculation: HSAs, Roth IRAs, or cash-value life insurance policies. Income streams from even reverse mortgages do not count. Consider Roth Conversions to reduce required minimum distributions if you have traditional IRAs. Working with one of our certified advisors on distribution management could reduce your overall taxable income and better prepare your retirement for health care expenses.

**Consider an HSA** – If you are enrolled in a high-deductible health care plan, you are eligible for contributing to health savings account. Like a 401(k), an HSA allows you to put away extra money for medical costs. Contributions are tax-deductible up to \$3650 for an individual and \$7300 for a family in 2022. Those 55 and older get an additional \$1000 contribution allowance. These earnings grow tax-free and can be withdrawn tax-free and penalty-free on qualified medical cost even Medicare and long-term care insurance premiums.

**Strategic long-term care insurance** – Since 7 out of 10 retirees will experience a long-term care event, having long-term care insurance to help cover costs when that time arrives is essential to helping save on medical expenses. Remember, annually a retiree needing long-term care will spend \$140,000 out of pocket for this.

## Upcoming May Webinars

5/5/22 – How to Retire in the 0% Tax Bracket

5/11/22 – A Framework for Your Retirement Income Strategies

5/16/22 – How to Protect Your Retirement Assets Before the Next Crash

5/16/22 – Women, Money, and Power: Take Control of Your Financial Future

5/17/22 – Tax-Free Income for Life: How to Eliminate Risk in Retirement

5/17/22 – How to Protect Your Retirement Assets Before the Next Crash

5/18/22 – Choosing the Right Life Insurance for Your Retirement

5/18/22 – Getting Safely Through Retirement: A New Paradigm in Retirement Planning

5/19/22 – The Truth About Reverse Mortgage: Everything You Need to Know

5/23/22 – Roth IRAs: A Great Option for Most Retirees

5/30/22 – Getting Safely Through Retirement: A New Paradigm in Retirement Planning

5/31/22 – Evolving Retirement Law: The Challenges, The Changes & Your Choices

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