

## Health Care and Your Retirement

As you set aside money for retirement, you're probably thinking about planning for necessities, such as housing, food, and transportation. You may also be budgeting for some luxuries, such as travel, dinners out, and gifts for family members and favorite charities. But there's another big expense to plan for: health care.

Even though Medicare kicks in at age 65, retirees still face hefty health care costs, because Medicare covers only part of the cost of services for beneficiaries. Retirees often must dig into their own pockets to cover co-pays, deductibles, premiums for additional coverage, certain prescription drugs, and noncovered necessities, such as eyeglasses, hearing aids, dental care, and long-term custodial care.

### The cost of care

In fact, according to a 2015 report from the Henry J. Kaiser Family Foundation, Medicare beneficiaries pay an average of about \$4,745 per year out of their own pockets for health care spending, including premiums for Medicare and other types of supplemental insurance and costs incurred for medical and long-term care services.

Trying to figure out how much money you'll need to set aside for health care in retirement is complicated, though, and depends on many factors.

The Employee Benefit Research Institute (EBRI) estimates in order to be 90% certain they'll have enough to pay for retirement health care, a 65-year-old couple would need to have \$264,000 set aside just for health expenses.<sup>2</sup> This doesn't even include any long-term care expenses.

People with high prescription drug costs need even more, according to EBRI. For a married couple with high medication expenses throughout retirement, savings of as much as \$392,000 would be needed for health care.

Geographic location affects your needs, too, because the price of health care can vary dramatically from state to state. For example, the average cost of assisted living in New York is 70% higher than in Missouri, government data shows.<sup>3</sup>

### 6 tips to be prepared

No matter how you look at it, retirement health care costs are significant. But with good planning, you can be prepared. Here are six steps to make sure you have the coverage you need for retirement health care costs.

**1. Maximize your savings.** The earlier you begin planning and saving for retirement, the better off you'll be. Make maximum contributions to 401(k), IRA, health savings accounts, and any other tax-deferred savings plans for which you qualify.

**2. Don't count on employer benefits.** If you happen to be one of the few lucky people whose employers offer retiree health coverage, that's great. But don't count on it, because employers may modify or stop giving benefits. Save as if you don't have retiree health coverage.

**3. Consider long-term care insurance.** Medicare covers medical care in a skilled nursing facility for a limited amount of time. But if you need long-term custodial care — help with eating, bathing, dressing, and other daily living activities in addition to medical care — you'll have to pay for it yourself. Care like this can cost as much as \$84,000 per year or more, depending on the kind of care you need.

Long-term care insurance can be expensive. Try to buy it early, when you're younger and healthier, because premiums are linked to age and health status. "It's best to start looking at it in your 50s," says Donna Peterson, Senior Vice President at Wells Fargo Advisors. "The longer you wait, the more expensive it is." Premiums can range from about \$900 per year when purchased at age 50 to \$6,000 per year when purchased at age 75.

**4. Look at "hybrid" insurance options.** A typical long-term care policy is pure insurance — you basically use it or lose it. But hybrid products, such as life insurance policies that combine both a death benefit and a potential long-term care benefit, allow greater flexibility, because benefits can be used for long-term care or life insurance payouts.

**5. Learn about the ABCs (and D) of Medicare.** Medicare covers just about everyone starting at age 65. But there's a lot it doesn't pay for, and there are many choices to make and fees to pay for supplemental coverage and optional insurance to cover Medicare gaps. And don't forget you'll need to add the Medicare Prescription Drug Plan (Part D) to help cover prescription drugs. "People think Medicare covers more than it does," Peterson says. "But, one thing everyone should know is it doesn't cover any custodial care." (Learn more at [www.medicare.gov](http://www.medicare.gov).)

**6. Get expert help.** Planning for health care costs during retirement is complicated. "The most important thing is to sit down with a professional Financial Advisor and go through all of these issues," Peterson says. "Few people approaching this time in their lives have all the answers. Your Financial Advisors can help you make more informed and realistic decisions by providing a better understanding how health care costs can affect your retirement."

*This information is provided for educational and illustrative purposes only.*

<sup>1</sup>Source: <http://kff.org/report-section/a-primer-on-medicare-how-much-do-beneficiaries-pay-for-medicare-benefits/>

<sup>2</sup>Source: <https://www.ebri.org/pdf/PR1145.Hlth-Svgs.22Oct15.pdf>

<sup>3</sup>Source: <http://longtermcare.gov/costs-how-to-pay/costs-of-care-in-your-state/>

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