

How Much Will Health Care Cost in Retirement?

By: Exchange Capital Management

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The number one priority when saving for retirement is ensuring you have enough to maintain your lifestyle for the rest of your life. However, people often underestimate or don't adequately budget for the cost of health care. Instead, many retirees believe Medicare will bear the weight of health care expenses. While Medicare will take care of some costs, you need to budget for what it doesn't cover.

What Does Medicare Cover?

Medicare is a federal health insurance program for individuals age 65 or older. It can be a significant source of coverage for retirees. However, it's important to understand that Medicare does not cover all health care costs, and you may still be responsible for copays, deductibles, premiums, and some prescription drugs.

Whether you are subject to a monthly premium for Medicare depends on your income and the specific type of coverage you have. There are four different types of coverage, and each has separate costs that are adjusted annually:

Medicare Part A (Hospital Insurance): This covers inpatient hospital care for 90 days and has a \$1,600 deductible for each benefit period. Medicare Part A also covers a portion of Skilled Nursing Facility (SNF) care, home health care, and hospice care as long as you are terminally ill and eligible. If you require extra care, you'll be required to pay for some services out-of-pocket.

Most people aren't required to pay a monthly premium for this coverage because they, or their spouse, paid Medicare taxes while working. If you do not qualify for Part A, you may have to pay up to \$506 a month.

Medicare Part B (Medical Insurance): This health insurance is similar to what you may have received while employed. It covers the standard medical coverage services, such as ambulance and medically necessary services and tests. Additionally, it'll cover necessary equipment (i.e., wheelchairs, walkers, etc.), therapy, preventative services, mental health services, and more.

The standard monthly premium is \$164.90 but may be higher depending on your income. A single tax filer must have income below \$97,000 in 2021 (if filing jointly, below \$194,000) to avoid a premium increase in 2023.

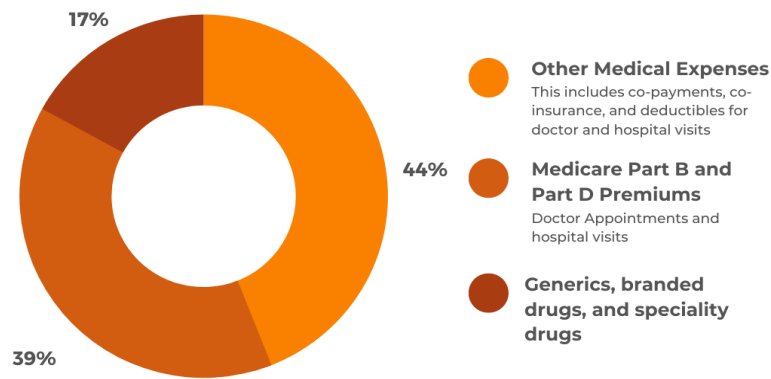
Medicare Part C (Advantage Plan): This coverage is offered by private insurers approved by Medicare. It covers all the services listed in Parts A and B, except for hospice care. The Advantage Plan also offers specialty services, such as dental, hearing, and vision. It may have additional services, depending on the plan you choose. If you enroll in this plan, you will typically have to pay a monthly premium in addition to your Part B premium. Costs depend on the specific plan you choose.

Medicare Part D (Prescription Drug Coverage): This coverage depends on the specific plan you choose and the drugs you need. It will cover most outpatient prescription drugs. Many pay a monthly premium for this coverage, which may increase depending on your income, and you may be subject to copays and a deductible.

Those with health issues may want to consider Medicare Supplemental Insurance (i.e., Medigap). This policy helps pay for deductibles and coinsurance for Part A and Part B. The premium depends on which policy you buy and where you live. However, you must have Part B and keep paying your Part B premium to use supplemental insurance.

What Are the Out-of-Pocket Costs for Health Care in Retirement?

Health care costs are always changing. Including future expected healthcare inflation, a 65-year-old couple today can expect to spend an average of \$673,587 in health care expenses in retirement. Here is a breakdown of where that money may go:



Source: Fidelity Benefits Consulting, 2022

While this includes costs such as Medicare premiums, copays, and out-of-pocket expenses, it excludes assisted living and nursing home costs. Medicare does not cover long-term care. In 2023, the cost of a private room in a nursing home is around \$9,000 a month (or roughly \$108,000 annually). On the other hand, assisted living averages \$54,000 a year and could be more depending on what services you need.

Keep in mind, long-term care costs are a trajectory that increases as you need more help. Retirees in nursing homes often start in independent care, then slowly transition to assisted living, and as they get older may move into a full-time skilled nursing facility.

Pro Tip: Health care costs increase roughly 1 ½ to 2x the rate of inflation (which was 7.9% in 2022). Like health care, long-term care costs will increase as time goes on.

Your age and health matter when budgeting for health care costs. For instance, someone who retires before age 65 (meaning they don't qualify for Medicare) and has a genetic predisposition for certain cancers or heart disease may have significantly more healthcare expenses than someone who doesn't. Your location also plays a significant role. Different states have different private insurance costs, prescription costs, and premiums.

Considering these projected costs and planning for the unexpected can seem overwhelming. It's staggering to wrap your head around how much health care costs can increase as you get older. However, these costs may even out as other costs decline.

When you begin retirement you may spend your money on travel, supporting your children and grandchildren, or buying a vacation home to enjoy your free time. But as you get older and need more healthcare services, your priorities shift — you're likely not traveling as much, and you begin relying more on convenience services (i.e., grocery delivery or lawn care services). As you reach age 90, you may only be paying for day-to-day life. The sticker shock of a nursing home is hard to stomach. But most people forget that retirees in nursing homes rarely have any other monthly expenses. There are no longer house or car payments and no weekly grocery bill.

The Bottom Line

The cost of health care in retirement is a significant expense and it's essential to understand these costs as you prepare for your golden years. By knowing the costs of health care in retirement, you can make confident decisions to ensure that you're prepared.

