Planning for Health Care Costs in Retirement

It's important to include health care costs when planning for retirement.

For most people, a long, enjoyable retirement is the reward for a lifetime of work. Retirement also marks the transition from earning a living to living off money set aside for the non-working years.

Like others, you may have very clear ideas about how you want to spend your retirement. And you may have built your retirement planning around these goals. You may have estimated how much money you will need to set aside to enjoy the retirement lifestyle you envision. However, if your retirement planning does not adequately address the costs of your health care during retirement, you may need to revisit and reexamine your numbers.

People are living longer and spending more years in retirement. According to data from the Center for Retirement Research at Boston College,* the average retirement is expected to last 19 years in 2020, 20 years in 2030, and 21 years in 2040. And while you should plan for routine health care costs for all these years in retirement, you should also consider the possibility of a serious accident or illness that could be very expensive. Planning for health care costs in retirement is a critically important issue that you need to address.

How expensive could health care costs be in retirement? Very expensive, according to recent research. Using data from the Health and Retirement Survey and Medicare Current Beneficiary Survey, the research** shows that once households reach age 70, they will spend an average of $122,000 in out-of-pocket medical costs over the remainder of their lifetimes. However, an individual's personal health and the cost of medical care in the particular location where the individual resides can impact the amount that will be spent.

What to Do

Despite the prospective costs and the variables that may come into play, you can take certain steps that may help you control and manage health care costs during your retirement years.

Focus on Prevention

During your working years, focus on improving your overall health by exercising, eating carefully and healthfully, and avoiding smoking and drinking alcohol to excess. Doing so helps reduce the risk of disease and aids your body in fighting off infection. It's also important to seek out preventative health services and stay up to date on vaccinations.

Source/Disclaimer:
*Source: Estimates from the U.S. Bureau of Labor Statistics, Current Population Survey (1962-2017); and U.S. Social Security Administration, Social Security Trustees Report (2017).
**Source: The Lifetime Medical Spending of Retirees, John Bailey Jones, Mariacristina De Nardi, Eric French, Rory McGee, and Justin Kirschner, National Bureau of Economic Research Working Paper No. 24599, May 2018.

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Look Into Long-Term Care Insurance

A long-term care insurance policy provides money to pay for home health aides, nursing home care, and assisted living facilities. You will pay lower premiums for a policy if you buy it when you are young and healthy. The size of the daily benefit amount you select and the length of time you are willing to wait to receive benefits will also have a big impact on the cost of the policy. Long-term care policies vary in the range of benefits they offer so you should work with a professional to compare different policies to find one that meets your needs.

Maximize Your Savings

Make an effort to save at higher rates during your working years to account for potential future increases in health care costs. If you are at a higher risk of chronic conditions because of your current health or your family's medical history, you should aim to maximize your savings. Likewise if your employer is unlikely to provide health care benefits in retirement.

Look Into Health Savings Accounts

A health savings account (HSA) can be used to pay for a variety of retirement-related health expenses. An HSA is essentially a medical savings account available to those enrolled in a high-deductible health plan (HDHP). Typically, HDHPs are less expensive than traditional medical insurance plans but have higher deductibles and out-of-pocket maximums. HSAs offer several tax-saving features that can help defray these higher costs. For example, contributions are deductible, interest (or earnings) on contributions is tax deferred, and, as long as the medical expenses paid with HSA savings are "qualified" expenses for the individual, spouse, or dependents, HSA withdrawals are tax free.

Contributions can be kept as cash or invested in other options that may be available, such as stock or bond funds. Any money not spent during the year is rolled over for subsequent years. A relatively healthy individual could accrue a sizable HSA balance over a number of years. Consult with a tax professional before investing.