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Regions Wealth Podcast

Episode 34: How to Plan For Rising Health Care Costs in Retirement

As of 2021, the average 65-year-old couple will need approximately $300,000 saved to cover their health care expenses in retirement, and for those that are planning on retiring before they're eligible for Medicare, that number may be even higher. So what can you do to prepare for the rising cost of health care? In this episode, we're chatting with Wealth Advisor Mike Fleishhauer on how to plan for medical expenses in retirement, health insurance options for early retirees, and the pros and cons of long term care insurance.

Episode Transcript

Sarah Fister Gale:

Welcome to Regions Wealth Podcast, the podcast that tackles life's challenges with financial experience. I'm your host, Sarah Fister Gale. As we all know, the cost of healthcare is continually on the rise. For retirees, the cost can be significant: as of 2021, the average 65-year-old couple will need approximately $300,000 saved to cover their health care expenses in retirement. So what can you do to prepare for those expenses and safeguard your retirement? Joining me remotely is Mike Fleischhauer. He's a Wealth Advisor for Regions Private Wealth Management. Mike, thanks for joining us today.

Mike Fleischhauer:

Thanks for having me, Sarah.

Sarah Fister Gale:

So, Mike, in this episode of Regions Wealth Podcast, we're discussing planning for healthcare expenses in retirement. We've taken some frequently asked questions from a bunch of people and developed a character who needs your help. Let's listen.

Brooke:

"Hello, I'm Brooke. I'm 61, divorced, and I'm an executive editor at a publishing house. I've worked here for over 20 years, and have been contributing my 401(k) the whole time. The company has a generous match. I was originally planning to retire between 65 and 67, but after the year I've had, I'm ready to call it a little early — hopefully before I turn 64. I have Type I diabetes, though it's fairly well managed. Even so, I'd assumed that Medicare would cover those kinds of expenses in retirement. Now, since I won't qualify for Medicare right away, I'm rethinking my options."

Sarah Fister Gale:

So we know that a majority of retirees spend more on health care as they age. At the same time, health care costs are always increasing. So what are some of the most common health care needs and costs that Brooke can expect?

Mike Fleischhauer:

So Brooke is in a unique situation, of course, because she wants to retire early, and therefore is going to have to consider things such as preventative health care, all the way up to unexpected health catastrophes. She's gonna be on the hook for all of this lack of health care insurance. So her options are to pay out of pocket, take on all the risk of her health care, go find an individual policy and pay the premiums until she may be eligible for Medicare, or use COBRA if that's an option through her employer or previous employer if she does need to retire early. There's some other considerations here too. One-in-four people will at some point in their life, need to address longterm care expenses. Generally speaking, at age 65, a couple who's married could expect to spend up to $300,000 in their lifetime out of pocket in addition to what insurances they may have. So if Brooke didn't have any kind of health insurance, all these things would need to be considered.

Sarah Fister Gale:

So to clarify, unless Brooke purchases her own health insurance plan, she'll potentially be uninsured until she's old enough to qualify for Medicare?

Mike Fleischhauer:

Right. So Brooke, if she separates from service and decides that she's retiring early, would be responsible for paying her own health care costs but it's not always economically feasible and can be quite expensive. So my role as a Wealth Advisor in Regions Private Wealth Management would be to sit down with her. We use a financial planning tool called rTrac that allows us to consider these things I just mentioned. And we would be able to help her to mitigate and prepare for what she needs on an ongoing basis that we know are her regular expenses. So, for example, if she's planning on retiring early, we talked about COBRA. That could come into play and it's not cheap. Leaving her job early, she could expect to potentially pay up to $20,000 or more a year for private insurance or COBRA. That doesn't account for other things such as dental, which could add to that expense of another 10,000. So, you know, roughly speaking, you could be expecting a 30 to $40,000 expense that maybe you weren't considering when you were in the workforce. Um, and this isn't anything catastrophic, like we talked about. So just things that we might be able to reasonably predict, we would have to factor that into her cash flow needs.

Sarah Fister Gale:

So it's interesting, you as a Wealth Advisor can help her work through those numbers and figure out particularly with her diabetes, what potential costs you would face and what ways she could help mitigate those.

Mike Fleischhauer:

Yes. And as you are referencing, the fact that she is diabetic puts her at additional healthcare risk. And so Sarah, we need to consider that too. And often, people aren't aware of what Medicare may or may not cover once they are eligible for those benefits.

Sarah Fister Gale:

So, that's a good point. Once Brooke qualifies for Medicare, what kinds of expenses can she expect it to cover? And how will she know what won't be covered?

Mike Fleischhauer:

Okay, so let's just talk general about Medicare for just a moment. This comes in two forms. There's the what's known as Original Medicare Part A; this will cover general hospital care, skilled nursing care, lab cost, surgeries. Then there's also Part B. This is the medical insurance for visiting your doctor, for outpatient care, for preventative services. There are other plans as well, in addition to Medicare Part A and Part B, people have heard of these called Supplemental Medicare Plans. There's also Medicare Advantage Plans, which essentially replace Medicare Part A and Part B, and it also pays for the deductibles and co-pays, but there is an out-of-pocket cost. And a lot of this needs to be thought through. And this goes back to financial planning, as we mentioned a moment ago, and thinking through cash flow, what our expected costs are going to be and is equally in some instances, what our unexpected costs might be and how we can prepare for those. It's not something to be taken lightly. And you may wanna sit down with somebody such as a Wealth Advisor who can specialize and help you think through some of these topics.

Sarah Fister Gale:

So that's interesting. Do you find that people assume Medicare is just Medicare, once I'm qualified, I sign up for one thing? Because it sounds like there's a number of different programs that you may not all qualify for, or may require different paperwork.

Mike Fleischhauer:

Sarah, these are great questions, so, the first thing somebody should do is sit down with an insurance specialist who offers Medicare, Medicare Advantage Plans, and begin to consider what the spectrum of options are out there because there truly are several options and depending on what your health is, what your cash flow is, what you may or may not wanna pay for out-of-pocket expenses come into consideration in retirement.

Sarah Fister Gale:

That's great advice, Mike. So let's listen to the next portion of Brooke's story.

Brooke:
"My colleagues, women like me with whom I've worked for over a decade or more, are also retiring in the next few years. Some of them have talked about enrolling in an HSA for that last stretch. I'm wondering if that's something I should consider as well.

Aside from my diabetes, I'm fairly healthy. Still, I know there can be complications later in life. The last thing I want is to sink my hard-earned savings into out-of-pocket expenses. I'm wondering what I can do in order to ensure my medical costs are covered — not only right after I retire but all throughout my golden years."

Sarah Fister Gale:

So Brooke mentioned switching to an HSA, a health savings account for the last two years before retirement. What are the benefits of an HSA?

Mike Fleischhauer:

So an HSA, a health savings account is a great tool that's tax friendly and can help you to pay for your medical bills. So she could contribute $3,600 to a plan herself,or her and her spouse could contribute up to $7,200 a year into a health savings account. She gets a tax deduction for that, and then that money could be used for health care costs. But here's the best part of having an HSA. If she did not have any out-of-pocket health care costs for the year, that money that she contributed could stay in the health savings account, it could continue to grow. So it can accumulate and become larger than her original contribution, and this is done at an essentially tax-free rate.

Sarah Fister Gale:

So Mike, you said that a couple can contribute up to $7,200. Can that money be used for either member of that couple? Or does it have to be split equally for health care costs?

Mike Fleischhauer:

Great question. If her and her husband were on a health care plan and they had the HSA, then they could both use it. And if they had children, they could also use it for their children.

Sarah Fister Gale:

So with Brooke's timeline of retiring within three years, is an HSA even beneficial?

Mike Fleischhauer:

Yes. The simple answer is yes. Brooke has some time if she's thinking about retiring in the next few years, and it can grow if she's not using it for any medical expenses. And the HSA becomes portable, and she'll be able to use it in retirement for things like private health care premiums, or when she reaches Medicare age, she could use it for those deductibles co-payments, even things such as over-the-counter medications, which you could use your HSA for.

Sarah Fister Gale:

That's interesting. So if she retires early and needs to pay for COBRA or a private health insurance, using money from her HSA would lower that financial hit a little bit.

Mike Fleischhauer:

Yes, exactly. And as you said, Sarah, a little bit because as we talked about too those costs could be anywhere between $30 to $40,000 a year out of pocket.

Sarah Fister Gale:

Right.

Mike Fleischhauer:

But as soon as she does it, the better off she'd be.

Sarah Fister Gale:

So a lot of retirees may think that Medicare is going to cover all of their medical costs. Is that true? And if not, what can they expect not to be covered?

Mike Fleischhauer:

Sarah, so I'm glad you asked this. There are some very huge lingering threats when it comes to your health care costs. An individual has about a one-in-four chance of needing longterm care during their lifetime and Medicare and all these supplements are not going to take care of that. So typically, when someone has a need for longterm care it's gonna be taken care of out of pocket, or they're going to have a longterm care insurance plan that was separate and distinct from a Medicare or Medicare Supplement Plan. Or they're going to end up spending down all their own personal assets. And unfortunately, at times, people will need to rely on the state in the form of Medicaid to provide for their longterm care. The costs for longterm care are very high, they can be 10 to $15,000 a month, and that is typically not covered through Medicare. Medicare is used for rehabilitative care. And this is the line in the sand versus what we call custodial care. Your Medicare insurance will cover a certain amount of days during your lifetime for things such as rehabilitative care, but once you've plateaued or there's not going to be any more progress, this becomes what we call custodial care. And if you're in this situation, you would need to rely on either yourself or some type of longterm care insurance that you've paid for out of pocket to cover these types of costs.

Sarah Fister Gale:

So how do you decide if longterm care insurance is the right move? And at what point should you start thinking about that?

Mike Fleischhauer:

I would say that in your 50s, would be the time to consider. There are private longterm care insurance policies that you can acquire out in the marketplace. And there are also what they call hybrid products now too, where you can get a rider inside of a life insurance policy or sometimes in an annuity, you can elect to have a longterm care benefit. So, just as an example, in a life insurance policy, I've had clients that have had maybe a half-a-million-dollar life insurance policy, but they also had a longterm care benefit associated with that. So the married couple each also had $250,000 worth of longterm care expenses that could be covered. And other than that, it's going to be the situation as I described, where you're paying out of pocket. As I mentioned, it could be 10 to $15,000 a month, or you're going to spend down your life savings to the point to where you might have to apply for Medicaid with the state that you reside in to have them pick up those costs.

Sarah Fister Gale:

Wow. So are there any drawbacks to longterm care insurance?

Mike Fleischhauer:

The biggest drawback to longterm care insurance is like any type of insurance, the premium. You outlay a certain amount of money. And if you never use that insurance benefit, then you're out of that cost. But the marketplace, as I explained a moment ago, is opened up to where you can have these type of riders within a life insurance policy or within an annuity, and this might be an option for some folks that might be substantially less than paying out of pocket or buying a traditional longterm care policy.

Sarah Fister Gale:

Okay, so let's listen to the last part of Brooke's story.

Brooke:

"When I first started planning for retirement, my projections were based on retiring at 65 or later. Now I feel like I'm back at square one. I have always been responsible with my savings. And if there was a silver lining to the past year, it was that I wasn't spending very much, so I saved even more. If there's an emergency, I'd probably be able to pay for it myself … but needless to say, I don't want things like medical costs to exhaust my savings — I still want to have enough to enjoy myself in retirement."

Sarah Fister Gale:

So, Mike, we've heard guidance in previous episodes of this podcast, that people should revisit their retirement plans often. So what are some of the risks of not adequately planning for healthcare expenses?

Mike Fleischhauer:

Sarah, the biggest risk of not planning for healthcare expenses is that you're taking on the risk entirely upon yourself, and those costs could be unlimited. Although it would be extremely rare to have a catastrophic event, it does happen. I've seen it happen to folks unexpectedly during my career. And the danger is potentially risking your entire retirement savings. And you could potentially go bankrupt from one major healthcare incident.

Sarah Fister Gale:

What other steps can Brooke take to make sure she's not sacrificing her savings for healthcare?

Mike Fleischhauer:

So Brooke could take the step, as we talked about earlier today, is planning for this early retirement. The savings could be evaporated very easily with one major medical expense. We can't predict that but we can reasonably predict what her normal medical expenses would be, and how to protect for those unexpected healthcare costs with proper coverage. Bridging those gaps is important and what we're looking to do is to give Brooke the assurance that she will be able to retire early, have her cash flow needs met on a day-to-day basis, have proper insurance. And then when she becomes 65, we can help her with a Medicare professional, sit down and see how that then begins to affect her planning going forward to protect her savings from unexpected health care costs rather than sacrificing her savings.

Sarah Fister Gale:

So Mike, at the end of each podcast, we like to ask our guests to sum up some key takeaways from our conversation. So what are the key takeaways that we can share with our listeners about health care and retirement?

Mike Fleischhauer:

Health care and retirement, the three things that we could take into consideration is that you need to prepare for it, you need to have a plan. There's gonna be both expected as well as unexpected health care costs in our lifetime. It's just a matter of to what degree. Number two, if your employer, if you're still employed, offers some kind of health savings plan, health savings account. Take advantage of it, it can be part of your retirement plan. Contribute to it as much as you can. And the sooner you do it, the better. The third thing I would look at is being prepared for longterm care. You as an individual have a one-in-four chance of needing longterm care. And it's not cheap, and Medicaid would be your last resort. So we wanna make sure that you have your cash flow protected, that you have a good insurance plan, and that you have contingency plans for things of the unexpected, such as longterm care.

Sarah Fister Gale:

That is great advice. Thank you so much. That was Mike Fleischhauer, Wealth Advisor for Regions Bank. You've given us some great actionable insights today.

Mike Fleischhauer:

Thanks, Sarah. Appreciate you having me as a guest.

Sarah Fister Gale:

And thank you for joining us today. In our next episode, we're chatting with wealth advisor Andrew George about creating a retirement spending plan. Be sure to check back, and don't forget to visit regions.com/wealthpodcast to explore past episodes.

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