

# Healthcare Costs in Retirement: Expect the Unexpected

Healthcare continues to be one of the great financial mysteries of retirement income planning. The healthcare system is a complicated network of rules, billing codes, and insurance options. But with increased longevity and advances in medical care, funding the long-term healthcare needs of today's retiree can challenge even those who have saved sizable retirement nest eggs. For many, the ability to pay for 30-plus years of out-of-pocket healthcare expenses will be a daunting task.

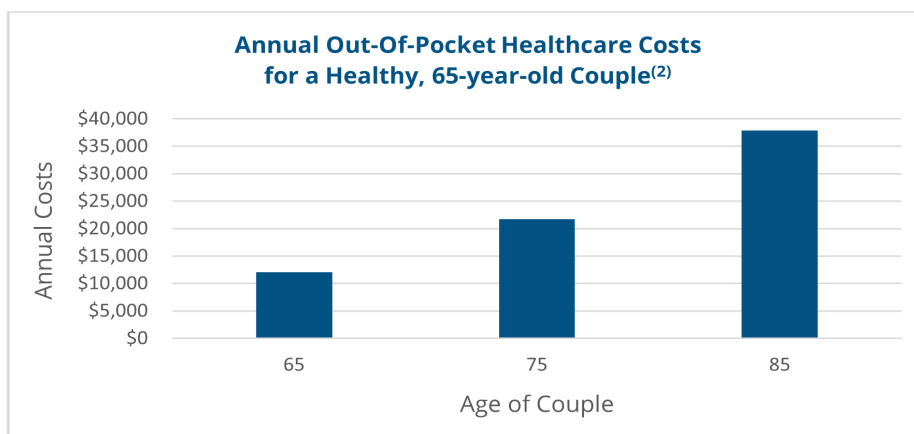
## UNDERSTANDING THE COSTS IN RETIREMENT

Many retirees underestimate the cost of healthcare in retirement. Some of this can be attributed to a misunderstanding that Medicare will cover all or nearly all a retiree's healthcare costs. However, while estimates vary widely, out-of-pocket healthcare costs will be a substantial expense of retirement.

To understand why, retirees first need to understand the cost structure of Medicare. Today, Medicare costs can be broken down into three categories: premiums, deductibles, and co-insurance. Medicare Part B premiums, depending on income, can start at nearly \$2,041 a year and can exceed \$6,939 a year per person.<sup>(1)</sup> It is also important to realize that Medicare is complex and, like private insurance, has services and items it will not cover.

Today, some of the categories that Medicare does not cover include prescription drugs, long-term care costs, dental care, vision, hearing aids, and overseas travel. Retirees who want these costs to be covered will be required to purchase additional insurance coverage. This can be done through a Medicare Advantage plan, Medicare Part D, long-term care insurance, a Medigap policy, or a combination of approaches. So, while Medicare may cover a significant portion of a retiree's medical expenses, costs can still add up.

Furthermore, healthcare costs are not constant. As retirees age, their use of medical services increases. While initial expenses may be manageable, between inflation and increased use of medical services, costs can increase significantly as retirees age.

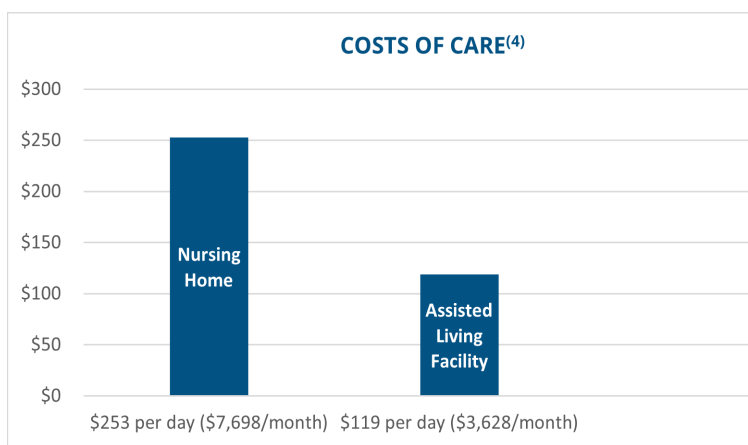


### LONG-TERM CARE COSTS

Long-term care is a topic many wish to avoid. However, due to the significant costs associated with long-term care, not taking steps to prepare for it can present major financial challenges for retirees. Additionally, the emotional and physical toll it can have on spouses and family members can be difficult to quantify.

At first blush, many will associate long-term care with a nursing home. However, it should be noted that the number of nursing home beds decreased slightly between 2009 and 2019.<sup>(3)</sup> As a result, long-term care typically begins at home before transitioning to a long-term care facility. This can place added pressure on family members and often require the assistance of home healthcare aides and other professionals.

Another option is to transition to an assisted living facility. Assisted living facilities attempt to combine the features of independent living with on-site health professionals. But such facilities can be substantially more expensive than staying in the home.



\$20.50 an hour for health aide

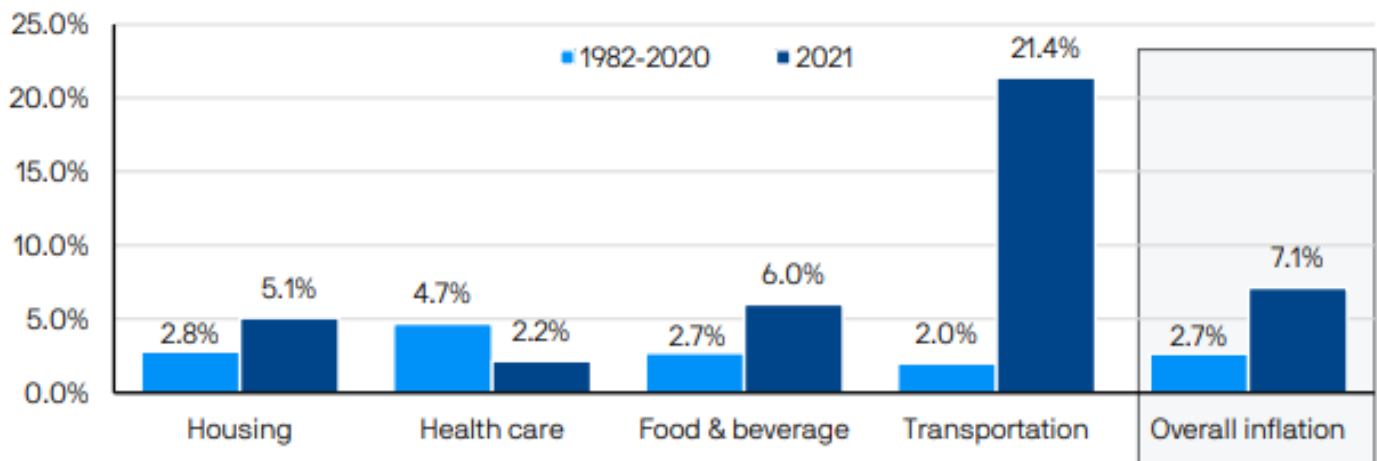
\$20.00 an hour for homemaker services

In the end, many families will make decisions based on the level of care that a family member requires. More serious conditions, such as Alzheimer’s disease and dementia, may require more care and resources than a family member can provide, forcing family members to explore residential options like nursing homes.

### HEALTHCARE AND INFLATION

While healthcare costs can be significant, it should be noted that healthcare-related expenses tend to experience significantly higher inflation rates than other goods and services. In fact, healthcare has experienced the highest rate of inflation when looking at long-term trends.

**AVERAGE INFLATION BY SPENDING CATEGORY<sup>(5)</sup>**



*BLS, Consumer Price Index (all urban consumers, seasonally adjusted), J.P. Morgan Asset Management.*

To put healthcare inflation into perspective, compare the increases to education costs, which have experienced similar rates of inflation. Those entering retirement may recall what they spent on college tuition. Comparing that cost to what it costs their children or grandchildren to attend college today can provide context for how much healthcare costs have increased.

**PROVIDING FOR HEALTHCARE COSTS IN RETIREMENT**

Incorporating healthcare costs into a retirement income strategy can be critical to helping retirees maintain their standard of living. And while certain out-of-pocket expenses, such as premiums and deductibles, can be accounted for, other costs such as long-term care expenses can be expensive and unpredictable.

When it comes to long-term care expenses, there are basically four ways to cover the costs: government assistance, traditional long-term care insurance, linked benefit or hybrid insurance, and personal savings.

Government Assistance

Government assistance can take many forms. For veterans and low-income retirees, benefits can be provided through the Veterans Health Administration or Medicaid. There may also be additional state-run programs.

Either way, programs such as Medicaid have eligibility rules requiring retiree’s income and assets to be below certain thresholds before benefits are provided. Furthermore, retirees will have limited choice as to where services are provided. Retirees should consult with a qualified elder law attorney or social worker to explore these types of programs.

Additionally, Medicare provides only limited long-term care coverage. Coverage is limited to 90 days in a skilled nursing facility and is subject to other limitations. Therefore, retirees should not rely on Medicare as a solution to long-term care costs.

### Traditional Long-Term Care Insurance

Few, if any, insurance companies continue to offer new traditional long-term care insurance policies. But if a retiree happens to own a traditional long-term care policy, they would have been able to choose the amount of coverage, how long it lasts, waiting periods, etc., at the time of purchase. Traditional long-term care policies can be subject to annual premium increases and can be quite expensive. Still, since these types of policies are not commonly available for sale to new policyholders, care should be taken to evaluate these policies and keep them in force only if it is determined that they continue to make financial sense and meet the needs of the policyholder.

### Hybrid or Linked-Benefit Products

Today, long-term care insurance is typically combined with life insurance. The concept is that if retirees need to access the policy for long-term care needs while they are alive, they would be able to draw down the death benefit to pay for long-term care needs. The amount drawn down is usually subject to monthly limits and restrictions. If there is still a death benefit remaining at the time of death, that would be paid to the beneficiaries of the policy as life insurance proceeds.

Additionally, some annuities will offer some type of benefit should the policyholder meet certain conditions. This can take the form of doubling the income generated by the annuity for a set period. Like policies that are combined with life insurance, the annuity may offer a set amount of benefits that can be drawn down.

### Personal Savings

Personal savings have the highest degree of flexibility. It is the retiree's money. Therefore, they can use it as they see fit for whatever expense they may incur. However, since long-term care costs can be unpredictable and expensive, personal savings may not be sufficient to cover the costs of care. Furthermore, for married couples, if one spouse's needs consume the bulk of personal savings, little may be left for the surviving spouse.

## **NOT A COOKIE-CUTTER APPROACH**

Healthcare, and the costs that accompany it, are not a one-size-fits-all situation. Personal and family health history, family support, personal wishes, and personal finances all play a role in building a retirement income strategy that can be flexible enough to meet uncertain healthcare expenses.

Financial professionals will often need to balance the need for future protection with a retiree's immediate retirement income needs. As a result, the use of approaches and products that can serve multiple needs can be attractive options.

<sup>(1)</sup> <https://www.medicare.gov/your-medicare-costs/part-b-costs>

<sup>(2)</sup> HealthView Services, 2019 Retirement Healthcare Costs Brief

<sup>(3)</sup> <https://www.kff.org/other/state-indicator/average-number-of-certified-nursing-facility-beds/?currentTimeframe=9&sortModel=%7B%22collid%22:%22Location%22,%22sort%22:%22asc%22%7D>

<sup>(4)</sup> U.S. Department of Health and Human Services: LongTermCare.gov, Costs of Care, October 2020

<sup>(5)</sup> <https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/insights/retirement-insights/guide-to-retirement-us.pdf>