

Health Care Uncertainty: Is Your Retirement Lifestyle at Risk?



By Sharla J. Jessop, CFP®

The changing health care landscape has many Americans feeling perplexed about health care during retirement. In fact, a survey conducted by polling pre-retirees and retirees revealed that one of their top two concerns was health care costs.¹ This should not come as a surprise to anyone who is nearing retirement. You have most likely wondered, “How much will I need to cover health care during retirement?”

Incorporating the unknown cost of health care into your retirement income plan can be tricky. But if sidestepped, the impact can be devastating to your plan and can quickly unravel the income stream you are striving to protect.

Projecting future health care costs

How much should you plan on spending for health care when you retire? Many will look at their later working years as a guide. In 2009, workers between the ages of 45 and 64 spent \$5,511 per person for health care.² A common mistake is using this cost as the basis for your retirement planning.

Unfortunately, as we age, our bodies break down. This can mean more visits to the doctor, more prescriptions, and additional medical procedures. Individuals age 65 and older

spend an average of \$9,744 on health care. This is 76% more and doesn't even include health insurance premiums. Using pre-retirement spending as the basis for your health care number may send your plan into a tailspin.

These expenses are expected to rise at an alarming rate. By 2019, per person spending for retirees is projected to increase to \$13,387.

Weighing the extent of Medicare coverage

Medicare will cover a portion of your health care needs but falls far short of covering everything. In addition to Medicare, you will need coverage that works in tandem with Medicare to fill in the gaps. These supplemental plans have been standardized to level the playing field among providers and assist seniors in selecting coverage. There are many plans (Medigap Plans A through N), but each company's plans provide the same medical coverage. For example, Medigap Plan coverage is the same regardless of which company you select. However, the premiums and covered providers vary widely.

Before selecting a supplemental plan, you should understand the difference between a Medigap policy and a Medicare Advantage plan as well as determine which

prescription drug coverage you may need. Even after simplification, the process can be daunting. Our consultants at Smedley Financial Services can help you.

Enrolling in Medicare

Believe it or not, Medicare enrollment is not always automatic. Missing an important enrollment date can cost you a great deal in the form of penalties and higher premiums. In some cases, the higher premiums will be paid for the rest of your life.

Let's break it down. Medicare Part A (Hospital Insurance) is free to most people. If you sign up for Social Security at age 65 or earlier, you are automatically enrolled in Medicare Part A. What if you continue to work or delay Social Security beyond age 65? You are required to enroll yourself in Medicare Part A during the initial enrollment period, which is a seven-month window. The window begins three months before you turn 65 and ends three months after the month you turn 65. Missing the initial enrollment period may result in your having no hospital coverage.

Medicare Part B (Medical Insurance) is premium-based coverage. Here is where the lifetime penalty applies. If you miss the initial enrollment period, outlined above, you will pay a higher premium—forever! Also, if you miss the initial enrollment period, you may be required to wait to sign up until Jan. 1—March 31 of the following year and your coverage will not begin until July 1.

If you didn't sign up because you were currently

employed and covered under a group health plan, you are entitled to a special enrollment period (SEP). If you sign up during the SEP, there is usually no late penalty.

Finding good advice

Income planning in retirement is complex and requires sophisticated knowledge. You must detect pitfalls and address the changing dynamics you will face. Smedley Financial Services can help you protect your nest egg by identifying potential risks and guiding you as you make critical decisions.

You've worked hard to get to retirement; doesn't it make sense to have a plan? Let us help. We invite you to call us for a free, no obligation retirement income review (801) 355-8888. Learn more by attending one of our educational Medicare or Social Security seminars. Visit us at SmedleyFinancial.com, and click on the "Contact Us" tab to enter your request.



1. "Managing Retirement Risks for the Mid-Market", The Journal of Financial Planning 2009.
 2. Kaiser Family Foundation calculations using data from U.S. Department of Health and Human Services, Agency for Healthcare Research and Quality, Medical Expenditures Panel Survey (MEPS), 2009.
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420 East South Temple, Suite 420, Salt Lake City, UT 84111
(801) 355-8888 • (800) 748-4788 • www.SmedleyFinancial.com