Medicare Guide

Are You Protected from a Health Care Issue?

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Understanding the Medicare Maze

Medicare is complex and it's extremely important to understand how this valuable government benefit works and how, if maximized, can add tremendous value to a retiree.

For many retirees, health care will likely be one of their biggest retirement expenses. Yet, many people don't know or greatly underestimate what they can expect to pay for health care in retirement. A Fidelity Consulting Service study conducted in 2010 concluded; "Health care is a big-ticket expense for most retirees. Out-of-pocket health care costs for the average 65-year old couple can reach $250,000 over 20 years in retirement and nearly $500,000 over a 30-year retirement."*

Upon signing up for Medicare benefits, many people are surprised to learn that there are costs involved with the program. Despite paying into Medicare throughout their careers, retirees may also face monthly premium and cost-sharing provisions for most Medicare programs after they enroll.

While the growth rate of health care costs has slowed since the recession, medical bill inflation still outpaces the broader consumer price index. Prescription drug prices alone are particularly worrisome. The average patient share for a brand-name prescription filled through a commercial health insurance plan increased more than 25% from 2010 to 2015, and spending on pharmaceutical drugs is expected to jump 46% by 2020, according to IMS Health.

So How Will You Pay for These Higher Costs?

Nearly three in four Americans say Social Security is their top source of expected retirement income for out-of-pocket health care costs, according to Nationwide Financial Retirement Institute. But those expectations could lead to budget troubles.

*Fidelity Consulting Services, 2010. Based on a hypothetical couple retiring in 2010, 65 years or older with average (82 male, 85 female) and longer (92 male, 94 female) life expectancies. Estimates are calculated for "average" Retirees, but may be more or less depending on actual health status, area, and longevity.

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5 Medicare Tips for New Retirees:

1. There is no family plan in Medicare

2: A cap on out-of-pocket costs isn't automatic

3. Be strategic in scheduling some procedures

4: Wellness features may be different

5. A little research may help limit your drug costs under Medicare

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Rising Medicare premiums will take a growing bite out of beneficiaries' Social Security checks, according to the Center on Budget and Policy Priorities. Today, the average retiree who hopes to be fully insured for health coverage may see more than 26% of their Social Security devoured by health costs that are derived specifically from just their premiums for coverage, according to the Social Security Administration. In 10 years, the percentage of a Social Security benefit eaten up by Medicare premiums will rise to just under 40%.

If health care costs will consume so much of your Social Security check each month, how will you pay for other expenses? Savings?

Not Enough Savings

Multiple surveys and the federal government report that pre-retirees clearly have not saved enough for retirement. Of baby boomers who have savings, 42% have saved less than $100,000 according to the Insured Retirement Institute. But a 65 year old couple retiring today and living for 20 years will pay $259,000 to $392,000 in out-of-pocket health care expenses alone, according to the Employee Benefit Research Institute. Combine that amount with other living expenses and there clearly could be a defecit.

What Can You Do to Prepare?

The key is working with a financial planning professional who has the expertise to navigate them with your best interest alway as the main focus. Traditionally, health care costs and Social Security income have not been included in retirement planning. Traditional planners have focused on helping in three areas: saving and insurance, investments and legacy. But planners who don't account for health care costs in a retirement plan and those who don't tap Social Security's full potential put you at risk of not having enough money for your retirement expenses.

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Martha's Social Security Decision*

If she claims at:	*She gets:*
Age 62 and lives to 90	*$446,260*
Age 70 and lives to 90	*$548,358*

By claiming at her earlies possible opportunity, Martha lost out on a total of $102,098

Bob's Medicare Enrollment Decision

- *Didn't sign up for Medicare Part B (medicare insurance) when he turned 65 because he didn't think he needed it*
- *Will pay an extra $48.72 every month as a penalty for enrolling late four year later*
- *By missing his Medicare enrollment dealine and living another 15 years, Bob pays an extra $8,769*

"The decisions you make - or fail to make - in your early to mid-60s about Social Security and Medicare may be more important than you think and cost you thousands of dollars."

Why Your Medicare and Social Security Decisions Are Important?

The decisions that you make - or fail to make - in your early to mid-60s about Social Security and Medicare may be more important than you think. They influence how much Social Security income you receive each month and how much you pay for Medicare health insurance and prescription drug coverage each month for the rest of your life. Missed enrollment deadlines or uninformed decisions can result in penalties or out-of-pocket costs that can seriously hurt even the most carefully designed financial plan.

And in today's post-recession economy, getting the most out of your Social Security benefit and containing health care expenses are even more important in enrusing that you have adequate income to live the life you want in retirement.

Americans make two mistakes that leave them unprepared for retirement expenses: overestimating what Medicare covers and taking less than what's available to them in their Social Security benefit. So, don't assume that Medicare takes care of all your health care costs. In reality, Medicare covers only about 62% of the cost of health care services (not including extended care). You will need to pay monthly premiums, as well as, co-insurance and deductibles. You also may want to buy additional insurance for those things not covered - which means you'll pay monthly premiums, co-pays, co-insurance and deductibles on those supplemental or "Medigap" plans, too. And perhaps one of the biggest misunderstandings is that Medicare covers extended care. Most extended care isn't medical care - it's help with basic personal tasks of everyday life. Extended care is costly, and if you don't prepare for it as a possibility, it could deplete your savings and even become a financial and emotional burden for your loved ones.

To request a complimentary Medicare Assessment or for more information, please contact us at:

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*Calculations performed using Social Security Timing software. Scenario is based off a birth date of Jan. 2, 1955, age 66 years old and two months primary insurance amount of $2,000, living until age 90, using 2.7% for the annual Cost-of-Lving Adjustment. Comparison in present value to stated death ages. Other considerations on timing of your Social Security filing should be taken into consideration by your advisor.

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