Health Care Costs and Retirement
6 Steps to Help You Control Your Future Health Care Costs

Webcast Transcript

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Featuring:

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MR. SANTOLI: Hello, I'm Michael Santoli, senior columnist at Yahoo! Finance. We're here to talk with you about how we can all take action today to keep the lid on the cost of our health care in the future.

With me today are Ben Storey, a Certified Financial Planner and Vice President of Merrill Lynch's Personal Retirement Strategy and Solutions Group, and Dr. Katy Votava, an expert in helping consumers understand how to manage their health care costs today and when they reach retirement. She's the founder of GOODCARE.com.

Welcome to you both.

Ben, let's start with you. Why is it important for people to start thinking about their health care costs in retirement when retirement might be 25 or even 30 years down the road?

MR. STOREY: Well Michael, you certainly want to take advantage of planning as soon as possible. That will give you additional time to adjust your strategy to accumulate more, and more importantly, take advantage of compounding.

The other thing that you want to think about—and I'd really like to take a positive view today—are the choices that will be available to you and the flexibility. When we talk about choices, we're talking about the choices in the doctors you select, the facilities you use, and the procedures that are available to you.

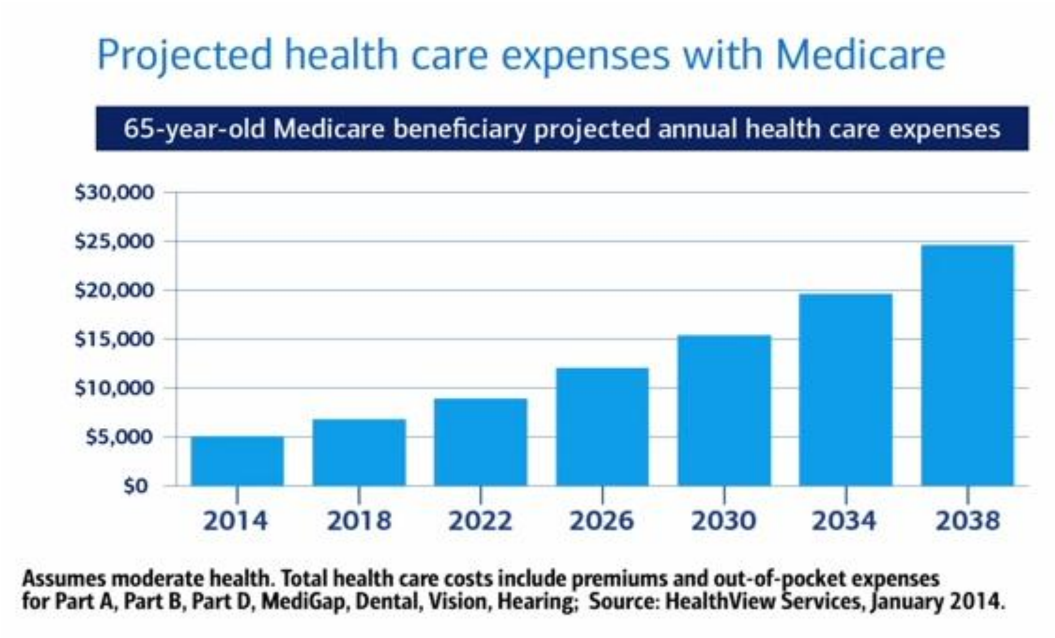
More importantly, making sure that you have the ability to select where you want to live in the event that you need additional care later in retirement. We did a study, the Merrill Lynch/Age Wave study, and it showed that people were very concerned about choices. As a matter of fact, the older that the clients were, the less concerned they were about running out of money during retirement, and the more concerned they were about not being a burden financially on their family due to a health issue.

The other thing to keep in mind is we really want to think strategically. This will certainly help us plan and make sure that we're taking advantage of everything that's available as we go through the process.

MR. SANTOLI: Well, just to drill down a bit, Ben, what are some of the particular issues that we should be aware of as we get into this planning process?

MR. STOREY: For one, Michael, we really have to consider the rising cost of health care. And it's outpacing inflation. Even with the Affordable Care Act—also known as Obamacare—the costs are going to be substantial.

[CHART]
Projected health care expenses with Medicare



For a moderately healthy 65-year-old paying $5,000 annually for health care, the expenses will dramatically increase throughout their retirement. By age 89, they'll be paying nearly $25,000 annually for health care.

MR. SANTOLI: And those are expenses, let's be clear, that are in addition to anything that Medicare covers. I think there's a general sense out there, especially among younger people, that Medicare seems to cover everything in retirement for health care. But Katy, not the case.

DR. VOTAVA: You're right, Michael. Medicare doesn't cover everything, and it's not free. People are not aware of that. And Medicare only covers about half of the costs people experience in retirement. But before we get into the costs deeper, I'd like to talk a little bit about background on Medicare, what it covers, and how you put it together.

[CHART]
What health care costs can you expect?

There is Medicare Part A for hospital coverage, and that's the only part of Medicare that's fully paid for ahead of time, but it still has deductibles and copayments.

Then there's Part B, for which there's a premium based on your income. And there are deductibles and coinsurance within Part B. Now, many people would be well-advised to get supplemental or Medigap coverage to cover those costs out-of-pocket. And then there is Part D for prescription coverage.

And then the other main way of putting your coverage together is a Medicare Advantage plan. It rolls all the parts of Medicare together—Part A for hospital, Part B for outpatient, and Part D for prescriptions. And people will pay one monthly premium for that.

MR. SANTOLI: Well, the takeaway here is that as you try to get some kind of an estimate of your long-term health care costs in retirement, you have to really come to terms with the fact that you may be paying much more out-of-pocket than you currently anticipate.

DR. VOTAVA: You're right about that, Michael, because there are things that aren't even covered under Medicare.

First of all, there are the costs that are part of Medicare: the deductibles, copayments, and coinsurance, and premiums for Medigap, Medicare Advantage, and prescription coverage. Medicare doesn't cover everything. It doesn’t cover dental, eye care, hearing aids, or anything like acupuncture or alternative health care.

And then there's the other thing called long-term care. Long-term care illness is not covered under Medicare, and that can cost thousands of dollars. And even without a significant long-term care problem, a person’s out-of-pocket costs when they're about 70 years old cost over $5,000. So that's certainly something to plan for.

[CHART]
Average annual out-of-pocket health care costs after Medicare

Average annual out-of-pocket health care costs after Medicare

For individuals with Medicare

	Moderate health
AGE 65	$5159
AGE 70	$5757
AGE 75	$6380

Source: Estimates provided by HealthView based on historical insurance data and actuarial projections, as of November 2013. Includes premiums for Medicare Parts A, B, D, Medigap Plan premium. Includes vision, dental and hearing plus out-of pocket costs for uncovered expenses and prescription costs. Assumes individual is in moderately good health.

Some of the other things that I see are what I call “cost sinkholes” in Medicare. And one of the biggest ones is prescription medications. While they may be covered, what am I going to pay when I pick those up at the pharmacy? That varies widely amongst those plans. And 90 to 95 percent of folks on Medicare are actually overspending on their out-of-pocket costs for their prescriptions.

MR. SANTOLI: Wow, so obviously it’s very important to shop around for a better prescription plan for you. What are some of the other potential sinkholes that you tend to see?

DR. VOTAVA: One of the other big sinkholes that we see, Michael, is that people need to plan ahead for their Medicare Part B premium. It is based on income. For folks who make over $85,000, who are single, or over $170,000 for a married couple filing jointly, they're going to pay more for those premiums.

[CHART]
Medicare premiums increase with income

Medicare Part B premiums increase with income

If your Modified Adjusted Gross Income (MAGI) in 2013 was...		Your Part B premium in 2015 will be
File individual tax return	File joint tax return	
$85,000 or less	$170,000 or less	$104.90
above $85,000 up to $107,000	above $170,000 up to $214,000	$146.90
above $107,000 up to $160,000	above $214,000 up to $320,000	$209.80
above $160,000 up to $214,000	above $320,000 up to $428,000	$272.70
above $214,000	above $428,000	$335.70

Source: Medicare.gov, 2014.

At the base it's $105 a month, and it can go up to over $300 a month where people will pay that income-adjusted monthly amount for their Medicare B premiums. And it all comes from their tax return, looking at the modified adjusted gross income.

MR. SANTOLI: Well, this all gives us a picture of what we might be up against in terms of paying for health care in retirement. But Ben, I'm wondering if there are things that we can do today, perhaps while still working, that are going to give us a bit of a head start in covering those expenses.

MR. STOREY: Absolutely, Michael. There are a variety of different things you can do. For one, you can max out your contributions to your 401(k) plan and your IRA. And if you're over the age of 50, you have the ability to make a catch-up contribution. This really helps—especially if you start early—due to the compounding that can take place over time.

And Michael, if you have a high-deductible health care plan, you actually have the ability to participate in a Health Savings Account, and that allows you some unique tax advantages. With the Health Savings Account, also known as an HSA, you can contribute and receive an immediate tax benefit upfront.

Now, in addition to that, once you decide to start distributing from this account, those distributions will come out tax-free—and that's federally tax-free and possibly state—as long as the expenses are used for qualified medical expenses.

The other thing to keep in mind is you have the ability to purchase an annuity. And with an annuity, that can provide additional income—and really predictable income—during retirement that can be used for the health care costs or other expenses related to retirement.

MR. SANTOLI: As Ben was talking earlier of preserving as many choices as possible, Katy, what other principles do you think people should keep in mind in terms of trying to maximize their health and minimize cost in retirement?

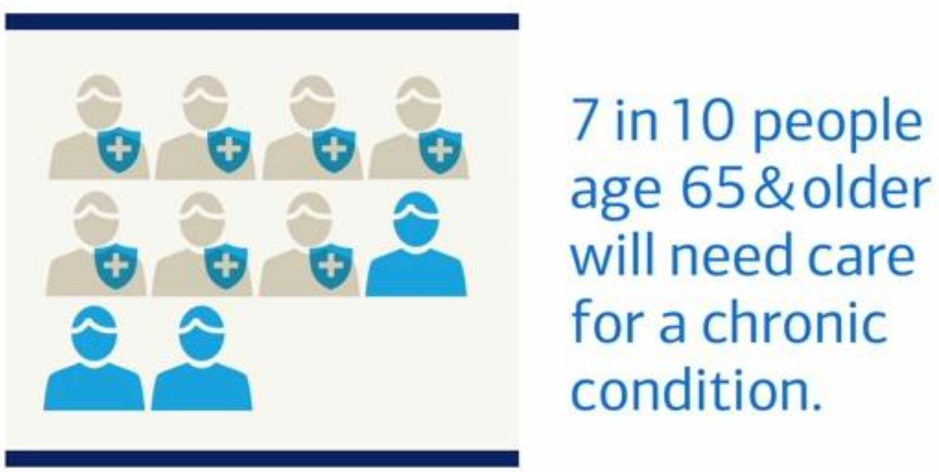
DR. VATOVA: Well, one important thing that people can do, that can be one of the best investments they can make, is embracing a healthy lifestyle: eating right, exercising, and getting your preventive health checkups. And getting your preventive health checkups is easier than ever now with the Affordable Care Act, because so many of them are covered for free, in full. So you can stay healthy. It's an investment that will pay you back many times over.

Another thing that people can do is invest and think ahead about their own health care costs in retirement, and put away adequate funds so that they can care for themselves and maintain independence in the long run, and minimize the chance of being a burden on their children in retirement.

MR. SANTOLI: Sure. Now you both have mentioned long-term care. This obviously stands as a pretty serious challenge for a lot of people, doesn't it?

MR. STOREY: Absolutely, and this can be a huge problem due to longevity.

[CHART]
7 in 10 people age 65 & older will need care for a chronic condition.



Source: U.S. Department of Health and Human Services, December 2014.

According to statistics from the U.S. Department of Health and Human Services, seven out of ten individuals 65 and older will need assistance due to a chronic issue. And one of the things that we really want to think about here is making sure that we're planning for this contingency.

There's some good news here as well, Michael. Basically, if we start investing sooner in a long-term care policy, the premiums will be lower. We have some additional options that are available, such as hybrid policies. And the way this works with a hybrid policy is there is a benefit that you'll receive that can help offset some of the long-term care costs. But one of the concerns that people have any time they invest in a long-term care policy is that they may not use it.

With this particular type of policy, it gives you the advantage of the fact that if you don't use it, it would act as a life insurance policy, which can provide a tax-free benefit to your heirs.

In addition to that, if you change your mind and decide that you don't want to use it or you don't need it, you can always receive the investment that you put into it back, but it's going to come out interest-free.

MR. SANTOLI: In addition to long-term care, you can never fully expect all the unexpected. But what are some other unpredictable expenses you think people should at least be aware of?

MR. STOREY: Well, you always have to factor in the curveball, you know, and the truly unexpected event. Now, I don't want to sound too negative here, but one example would be having to retire, and really being forced to retire, before the age of 65.

This could be due to health issues or possibly a layoff. Now, when that occurs, you want to make sure that your health insurance is covered during that period of time up until the point that you can apply for Medicare. In that case, you have several options that are available, one of which would be to continue coverage that would be provided by your employer, basically allowing you to continue to stay in their plan. Unfortunately, fewer and fewer companies are offering this as an option.

Now, if you have more than 20 employees with your company, you do have the ability to continue coverage in the plan under COBRA, and that can last for up to 36 months. However, the financial burden of continuing that plan is placed on the individual, and it can be very expensive.

Another option is to take a look at the Affordable Care Act and the marketplaces that have been created as a result of that. You can use that as a way to shop around, see what the rates are, the different plans that are available, and you can do this by going to healthcare.gov.

MR. SANTOLI: The mention of the Affordable Care Act points out the fact that the health care economy is forever changing. I mean, the ACA itself is really overhauling a big chunk of it. So Katy, that brings up a final step that one might have to take, which is keep up-to-date on all those changes.

DR. VOTAVA: You're absolutely right, Michael. It's more important than ever because the marketplace in health care is ever-changing. So it will be very important for people to stay abreast of what's going on in their own state and area with the Affordable Care Act, and see how it's implemented and how it's going to work for you. And, of course, Social Security and Medicare are ever-changing. And so it's important for people to stay educated and up-to-date. You can keep your plan evaluated, and make it current now. And then you have options to plan for the future to be flexible.

MR. SANTOLI: Always keeping in mind that change might be the only constant here.

Well, thank you very much. It's a really a good place to wrap up, with the advice that we should always try to keep abreast of all developments in health care. Thank you, Ben. Thank you very much, Katy. And I'd like thank you for tuning in.

I hope you gained some helpful information from our panelists, and I invite you to learn more by visiting MerrillEdge.com/healthcare, or going to the Medicare site, at Medicare.gov.

I'm Michael Santoli. Thank you for watching.

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