

How to Build a Retirement Health Care Budget

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–Elaine Floyd, CFP®

The most accurate and reliable way to determine your spending needs in retirement is to sit down and make up a budget projecting costs in the areas of housing, utilities, food, transportation, leisure activities and so on.

Depending on how your life will change (or not) after retirement, you can base these projections on the amounts you currently spend. If you don't plan to move, for example, your housing and utility costs will remain the same. If you plan to travel, your leisure costs will go up. This pre-retirement math exercise is not difficult. It just involves making lifestyle choices.

What is difficult for many people is figuring out the health care part of the budget. While you are working and covered by employer insurance, your health care costs are relatively easy to discern. You know how much your insurance premium contribution is (if any). You understand deductibles, copayments, and coinsurance amounts, and you can see, based on the prior health care needs of you and your family, how much you have traditionally spent on these items.

All of this is likely to change when you retire. After age 65, health care in this country is built around Medicare. While you will still pay premiums, deductibles, copayments, and coinsurance, as well as other out-of-pocket costs, these expenses may be different than when you were working. Here's what to think about when you are building your retirement health care budget.

Monthly premiums

Medicare draws upon the traditional health insurance model in that you will pay monthly premiums to the government in exchange for certain health care benefits. Although Medicare Part A is free to anyone (and his or her spouse) who has paid into the system via payroll taxes over at least ten years, Part B carries a monthly premium, which is adjusted annually. In addition, if your modified adjusted gross income exceeds \$88,000 if you are single, or \$176,000 if married, you will pay an extra income-related monthly adjustment. This amount is also adjusted annually.

In addition to premiums paid to the government for Medicare Part B, you may also pay premiums to one or more private insurance companies for prescription drug coverage and supplemental insurance. All of these premiums will go into your retirement health care budget:

- Part B base premium paid to Medicare

PLUS

- Premiums paid to private insurers for supplemental coverage:
 - » Standalone prescription drug plan + Medigap policy OR
 - » Medicare Advantage plan OR
 - » Contributions to employer-sponsored health plan

PLUS

- Income-related monthly adjustment for Part B and Part D, if applicable

Out-of-pocket costs for non-covered services

Out-of-pocket costs are more difficult to budget, because they depend on the kind and amount of health care services you use in any given year. If you are in good health and have comprehensive supplemental insurance, you may incur very little in the way of out-of-pocket costs, perhaps a couple of dental examinations and an eye exam each year. On the other hand, if you have a chronic condition requiring expensive prescription drugs, you may have significant out-of-pocket expenses.

Your health care budget may incorporate one or more of the following:

Deductibles, copayments, and coinsurance amounts.

These will depend on the type of private insurance you have as well as the extent of your health care usage. If you have comprehensive supplemental insurance or seldom

go to the doctor, these costs will be minimal. However, copayments, which comprise the \$10 or \$25 charge you pay each time you go to the doctor, can add up if you have a condition requiring frequent doctor visits.

Direct payments to health care providers. Supplemental insurance that is designed to work with Medicare often does not cover services that Medicare does not cover (rather, it covers the amounts that Medicare doesn't pay for Medicare covered services). Services not covered by Medicare include dental work, eye examinations, cosmetic surgery, most chiropractic care, and other alternative treatments.

When drawing up your retirement budget, try to project your need for health care services and estimate the costs based on the amount you will be required to pay after Medicare and supplemental insurance pay their share.

After you retire, be sure to check your actual health care spending against the budget so you can identify any discrepancies. Better yet, when seeking health care services, find out your out-of-pocket cost (if any) before you incur the cost. You may be able to negotiate a lower cost or shop around for less expensive services. Having health insurance — including Medicare — doesn't mean you shouldn't monitor your health care expenses and obtain the most value for your dollars spent.

Elaine Floyd, CFP®, is Director of Retirement and Life Planning for Horseshmouth, LLC, where she focuses on helping people understand the practical and technical aspects of retirement income planning.

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