

How to Keep Health Care Costs Under Control in Retirement

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–Elaine Floyd, CFP®

If you’ve been covered by a generous employer group health plan, you may be in for a rude awakening when you retire. Here are some tricks for keeping health care costs under control after you retire.

Although the government may subsidize some of your health care costs under the Medicare program, you will still be responsible for certain out-of-pocket costs. You will want to do everything in your power to prepare for these costs, as well as avoid unnecessary costs like late enrollment penalties, overpriced private plans, and superfluous trips to the doctor.

Avoiding late-enrollment penalties

Did you know that there’s a penalty for not enrolling in Medicare on time? That’s because the only way the system can work is if everyone — the sick and the healthy, the young and the old — participate in the program. If you fail to enroll in Medicare when you are supposed to, you will be charged a penalty equal to 10% of the Part B premium for every 12 months you delayed signing up for Medicare. The penalty is permanent and must be paid for the rest of your life.

To avoid it, find out when you need to enroll in Medicare and be sure to sign up during your enrollment period.

If you are retired and covered by a retiree plan, or if you are working and covered by a plan that covers fewer

than 20 employees, you must enroll in Medicare Part B no later than the third month after your 65th birthday.

If you (or your spouse) are still working and covered by a group plan that covers 20 or more employees, you must enroll in Medicare no later than the 8th month after your group coverage ends.

Practically speaking, you’ll want to avoid gaps in coverage by enrolling in Medicare before your employer coverage ends. But to avoid penalties, make sure you sign up no later than the end of your enrollment period.

Shop carefully for private insurance

Medicare does not cover everything. In order to avoid coverage gaps for prescription drugs and the portion of medical services that Medicare doesn’t pay for, you will need to have private insurance. Whether you buy a comprehensive Medigap policy plus a standalone prescription drug plan, or enroll in a Medicare Advantage plan, you will need to shop carefully to get the best plan for your needs.

Comparing monthly premiums is just a starting point. You will also need to pay attention to deductibles,

copayments, and coinsurance amounts considering the specific drugs and types of services you need.

A recent study by eHealth found that 90% of Medicare beneficiaries are paying too much for their drug plans. The study evaluated more than 23,000 Medicare beneficiaries who entered their current plan and medication information into the PlanPrescriber.com tool. Only 8% were in the Medicare prescription drug plan with the lowest total out-of-pocket costs available to them, and fewer than 15% were in the Medicare Advantage prescription drug plan with the lowest total out-of-pocket costs available to them. Data showed that changing to the plan with the overall lowest out-of-pocket cost could potentially save the average user more than \$500 in one year.

Not to mention, there is a wide disparity in Medigap premiums. Nationally, the average annual premium for Plan F in 2018 was \$1,712. But a 65-year-old in Hartford, CT can spend anywhere from \$2,900 to \$7,400 annually, according to Weiss Ratings. Use the Medicare Plan Finder tool (www.medicare.gov/find-plan) or talk to your state's health insurance assistance program (www.shiptacenter.org) and choose the lowest-price plan that offers the level of coverage and customer service that you need.

Be a cost-conscious consumer of healthcare

Of the factors underlying the meteoric rise in health care costs over the past two decades, the growing role of health insurance in our country has been held responsible in part because it tends to make consumers unaware of costs when they seek health care services. This is especially true for workers with comprehensive employer health insurance.

Once you go onto Medicare you will need to be aware of health care costs. Otherwise you could be surprised by some rather large medical bills. Start by asking if your doctor accepts Medicare—some don't. Ask if the doctor accepts assignment, which means you will be billed no more than the Medicare-approved amount, with you (or your Medigap insurer) being responsible only for the deductible and coinsurance amounts.

Examine your insurer's drug list and be aware of the copayments and coinsurance amounts for drugs you take. Do this annually, because drug plans change from year to year. Take into consideration all of your health care needs, including dental care and other services not covered by Medicare, and be aware of all of your out-of-pocket costs — preferably before they are incurred.

Reduce the income-related monthly adjustment amount

If your income is over \$87,000 (if single) or \$174,000 (if married), you will be charged an income-related monthly adjustment amount on top of your regular Part B and Part D premiums. These are cliff thresholds, which means if your income is just \$1 over the amount, you will be charged the higher amount.

Talk to your financial and tax advisors about ways you may be able to reduce your modified adjusted gross income in order to avoid these excess charges. There may not be anything you can do to avoid the IRMAA, but if you're near one of the cliff thresholds, proper tax planning can save you a lot of money in additional premium expenses over the course of your retirement.

Seek preventive care and stay healthy

Although staying healthy won't help you reduce your premium costs, it will certainly help you avoid copayments and coinsurance amounts. Stay healthy by exercising and eating right. Get your free flu shot every year. Take advantage of Medicare's free screenings, such as mammograms, prostate cancer screenings, colorectal cancer screenings, and others. Certain conditions, if discovered early, can be treated quickly and easily and at a much lower cost than if hospitalization or expensive drugs are required.

You should view staying healthy as a reward in and of itself, and also bear in mind that it will not necessarily save you money overall: The longer you live, the more you'll pay in premiums. When designing a healthcare budget, it pays to account for the possibility of a very long life.

We've outlined here a few ways you can keep your healthcare expenses under control in retirement. Unfortunately, it is not an entirely predictable expense. In order to get a firmer grasp of your personal retirement health care situation, you should consult both your doctors and your financial advisor.

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

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