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TACKLING RETIREMENT HEALTH CARE ISSUES

By Kelly L. Olczak, CFP®

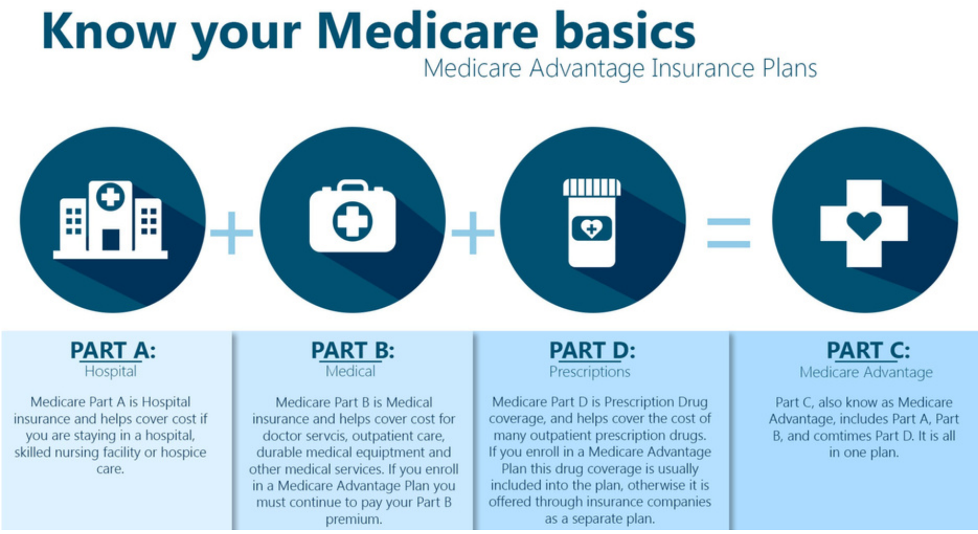
A single person age 65 in 2023 may need about $157,500 saved after taxes to cover health care expenses in retirement, according to **Fidelity**. In 2023, their estimate for an average retired couple aged 65 is around $315,000.

The actual amount you'll need will depend on many variables, including where you live during retirement, your health, and how long you may live. Remember, Fidelity's numbers are just an average. Some folks will spend more, and some will spend less.

The good news is that costs are expected to stay the same compared to 2022. The bad news: it's almost double the 2002 estimate.

Fidelity bases its example on those who take part in traditional Medicare. If you have yet to retire, do not assume that Medicare is a panacea for all health care costs. Many younger folks believe that Medicare covers all expenses. It doesn't. While coverage is broad, it does not take care of everything.

MEDICARE BASICS



Let's take a brief look at Medicare.

Medicare Part A covers treatment in a hospital. It's free for most folks.

The premium for Medicare Part B, which covers doctor visits and lab tests, is currently $165 a month (or more, depending on your income). There's usually a 20% cost share when you receive treatment.

Many who enroll in traditional Medicare purchase what's called a **Medigap policy**. A Medigap policy is health insurance sold by private insurance companies that help plug "gaps" in traditional Medicare. Medigap policies help pay for some health care costs that original Medicare doesn't cover.You may go to any doctor that accepts traditional Medicare insurance.

The premium varies for Part D, which covers prescription drugs. Beginning in 2025, out-of-pocket costs for prescription drugs will be capped at $2,000 a year.

Medicare Part C is growing increasingly popular. Also known as a Medicare Advantage Plan, Medicare Part C wraps Parts A and B into a single plan.

Many offer vision, hearing, dental, and health and wellness programs. Most include Medicare Part D.

Private health insurance companies offer Medicare Advantage plans. They must follow rules set by Medicare. But much like an HMO or PPO, you'll be funneled into in-network doctors or your out-of-pocket costs will be much higher.

However, since 2011, federal regulations for Medicare Advantage have mandated out-of-pocket limits for Parts A and B. In contrast, traditional Medicare has no out-of-pocket limit for covered services—hence the need for a Medigap policy.

In 2023, the **out-of-pocket limit** for Medicare Advantage plans may not exceed $8,300 for in-network services and $12,450 for in-network and out-of-network services combined.

PLANNING SMART FOR HEALTH CARE IN RETIREMENT

With this brief review in mind, let's look at several ways you can position yourself favorably as you approach retirement.

OBTAIN THE CORRECT MEDICARE PLAN THAT BEST SUITES YOUR NEEDS

The information we provided above is a broad outline. The insurance you obtain during retirement will depend on costs, your health and your individual circumstances.

If you decide that Medicare Advantage is the right choice for you, you will want a plan that includes your doctors and medications to avoid higher out-of-network costs.

If you have additional questions, we would be happy to point you in the right direction.

TAKE ADVANTAGE OF HEALTH SAVINGS ACCOUNTS

You must have a high-deductible plan, but you may contribute up to $3,850 pretax to a Health Savings Account (HSA) as a single person and up to $7,750 if you have family coverage.

Much like an IRA, capital gains and earnings in an HSA are sheltered from taxes. Moreover, you may withdraw from an HSA and pay no taxes if the funds are used for qualified medical expenses.

Other **HSA advantages**:

- You may use your HSA to pay certain Medicare expenses, including premiums for Part B and Part D prescription drug coverage.
- Your HSA can be used to cover part of the cost of a tax-qualified long-term care insurance policy.
- Your HSA is a retirement savings account, too. In other words, an HSA becomes a viable tool that can be used to save for retirement as well as a savings account for health care expenses.

For example, let's say you are 68 years old and withdraw $1,000 from your traditional IRA to pay for qualified medical expenses. You'll pay federal and state income taxes on that withdrawal. If you pull $1,000 from an HSA for the same

expenses, you won't pay any taxes. Consider maxing out your IRA and HSA if possible. If you can't max out both, consider placing some of your retirement savings into an HSA.

PLAN FOR LONG TERM CARE

Long-term care is a difficult topic many would rather avoid. A person turning 65 has about a 70% chance of needing long-term care at some point, according to the Department of Health and Human Services. **Medicare covers skilled home health care** if it's required.

However, coverage for skilled nursing home care is limited. Medicare pays for the first 20 days in a nursing home. You'll pay a $200/day co-payment for days 21 to 100. After day 100, you'll be responsible for 100% of the cost.
You may consider a long-term care policy, which can be quite expensive.

To address this potential obstacle, you may look at hybrid insurance, which is a combination of permanent life with a long-term care rider. Another option is self-insurance, where you set aside funds that may be used for long-term care.

Assessing your situation is the most important factor in determining the correct approach to health care. It's a complex issue. It sometimes feels as if you are untying a knot when you are planning for health care coverage.

But there are solutions. This month's newsletter serves as a guide that can help you untangle that knot. If you have additional questions, we're happy to assist.

BRIEF MARKET UPDATE

IT'S NEVER A STRAIGHT LINE

Last year was a year most investors would like to forget. While the performance was underwhelming, let's not forget some of the lessons learned.

We recognized that a well-diversified portfolio of stocks appreciates over a long period. But we expect interruptions along the way.

Since 1909, there have only been four periods where the rolling 10-year annualized return of the S&P 500 Index has been negative.

Two occurred in the late 1930s, which coincided with the stock market collapse and the Great Depression, and two occurred in the late 2000s, which coincided with the financial crisis and the Great Recession.

Looking back 10 years prior to those periods, we arrive at the Roaring Twenties and a thriving stock market, and the stock market bubble of the late 1990s. In other words, stocks had gotten well ahead of the economic fundamentals, and an economic event forced a longer-term retrenchment.

Here is one more statistic. Over the period in question, stocks averaged a 10% annual return. Despite their volatility, stocks still outperformed savings accounts, CDs, T-bills, and bonds over the long term.

Last month, stocks took a breather. When markets are seemingly priced for perfection, any disappointment may lead to a pullback.

Also, last month, Treasury yields began to move higher, with the 10-year Treasury yield hitting its highest level since 2007, according to data from the St. Louis Federal Reserve.

Concerns over China's slow recovery from draconian covid lockdowns also created some jitters.

Finally, August has historically been a weak month for stocks, per monthly S&P 500 data from the St. Louis Federal Reserve.

Key Index Returns

Index	MTD %	YTD %
Dow Jones Industrial Average	-2.4	4.8
Nasdaq Composite	-2.2	34.1
S&P 500 Index	-1.8	17.4
Russell 2000 Index	-5.2	7.9
MSCI World ex-U.S.A*	-4.1	8.2
MSCI Emerging Markets*	-6.4	2.5
Bloomberg Barclays U.S. Aggregate Bond TR USD	-0.6	1.4

Source: Wall Street Journal, MSCI.com, MarketWatch, Bloomberg
MTD returns: July 31, 2023–August 31, 2023 YTD returns: December 30, 2022–August 31, 2023
**U.S.D.*

We're not smart enough to time the stock market. Occasionally, we might make a lucky guess, but it's not something we can depend on. Even the most experienced traders could get lucky once in a while, but it's impossible to predict the highs and lows of the stock market consistently.

Few saw a bear market last year, and few expected the stock market to rally as it has done this year. In fact, many expected the economy to be in a recession by now, which would likely have created another impediment to stock market progress. We're still waiting for that recession.

That said, control what you can control.

We can't and you can't control shorter-term returns. That's out of our sphere of influence.
But there are aspects of investing that we can control.

- Long-term performance is about time in the market, not timing the market.

- Your behavior plays an important role in long-term returns. How do you react when stocks soar or falter? Does euphoria lead you to become too aggressive? Does market weakness push you to get too conservative after equities have already faltered?

- What is the best approach to your financial plan? Your mix of stocks, bonds and cash (and any other diversified asset class) plays a role. Much will depend on your appetite to take on risk.

It's why we consistently emphasize your financial plan and your long-term goals.

The plan isn't etched in stone. It is flexible. When life brings about changes, we can make adjustments. But we encourage adjustments in the variables you can control.

I trust you have found this review to be informative. If you have any inquiries or wish to discuss any concerns, please don't hesitate to contact me or any member of my team.

As always, it's a privilege and a humbling experience to know that you have chosen us as your financial advisor. Thank you for the trust you have placed in us.

FINAL THOUGHTS

It is important to understand the costs associated with retirement health care expenses and how Medicare can assist you. Planning for these expenses is vital, as it may help reduce out-of-pocket costs and put you in a better financial situation during retirement. Whether you're just getting started or have already begun planning, understanding Medicare and the various options available can help ensure that your retirement is secure and comfortable. With the right knowledge, you can ensure that you have access to the best possible health care in your golden years. Doing so can help make sure you're prepared for the future and can live life to its fullest in retirement.

If you are not a client of ours, let me just say - we are pretty good at this sort of planning. Let Us Help You Plan for Retirement Healthcare Expenses. Seriously, give me a call. I would be happy to provide you with some free advice, yes, free advice. I would be delighted to help you get started!

Thank you for reading! Stay healthy and safe.

Kelly

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