

WISER Special Report

Paying for Health Care in Retirement

One of the complications in retirement planning is the need to make predictions—what will our future living expenses be, and what about inflation rates? A big mistake people make in projecting how much income they will need in retirement is underestimating the cost of future medical care. This error can undermine your entire retirement plan and leave you struggling to make ends meet.

Having a realistic plan to cover health care expenses in retirement is crucial. WISER recommends that women have a cushion to help weather inflation, high health care costs and their longer lifespan. We suggest that women plan to replace 100% of their income in retirement, rather than the 75-80% recommended by many financial planners.

A recent study by experts at *Boston College* estimated that the percentage of after-tax income spent on health care will double for seniors by 2030. The study also predicted that those with the lowest incomes will be hardest hit. Those 65 and older with incomes in the bottom 20% of all seniors,



the study predicts, will spend about half of their income on health care alone.

Financial analysts have differing predictions on how much money retirees will need in the future for health care, *but all agree that the costs will be substantial*. Fidelity Investments, for example, estimates that a typical 65 year old couple will need \$200,000 to cover 20 years of health care and the Employee Benefit Research Institute puts the estimate closer to \$300,000.

These estimates of health care costs generally equal or exceed the average amount people are saving in their 401(k)s—raising concerns among experts that retirement savings plans will not cover much more than health care costs in the future. Seniors in this situation will likely be relying on Social Security alone for all of their other living expenses, and are not likely to have the secure retirement they are hoping for.

As you think about your retirement, it is important to take some time to understand the health care challenges many of us will face in the future.

5 Things to Know about Medicare Benefits:

- ❖ One reason that many people underestimate their retirement health care expenses is because they mistakenly believe that Medicare coverage is similar to their workplace health insurance. But, Medicare only covers about half of retiree health care expenses. The uncovered expenses must be paid for by private supplemental insurance plans called “medigap” plans, a drug coverage policy through the optional Part D of Medicare or from personal savings.
- ❖ Compared to many workplace insurance plans, Medicare has higher out-of-pocket costs and fewer benefits.
- ❖ Medigap coverage is expensive: for a 65 year old woman the current cost is between \$1550 and \$4000 annually, depending on where you live and type of coverage you purchase.
- ❖ Prescription drugs are a costly item for seniors, even with the new Medicare drug benefit. A recent study found that median drug prices for the top 15 drugs prescribed to seniors increased by over 9% in 2006.
- ❖ Many people are surprised to find out that Medicare does not cover most long-term care costs. Medicaid, a program run by states, generally covers costs only after the individual is impoverished. Long-term care services are expensive and can derail even a well-thought out financial plan.

Things you can do while you are still working:

- ❖ **Plan to retire debt free.** If you are 50 or older, you should put an aggressive plan in place to eliminate your debts by age 60. If you are younger, make a pact with yourself and your spouse/partner (if you have one) to eliminate debt and live within your means.
- ❖ **Plan for education expenses.** Investigate all available options for covering children’s college costs without using retirement funds or home equity. Open education savings plans when your kids are young. Even small amounts, invested over time, will add up.

- ❖ **If you own a home, try to have it paid off by your expected retirement age.** This will give you the freedom to sell and buy a smaller home, purchase a place in an assisted living facility, or just live in your home without the pressure of mortgage payments. Making extra mortgage payments over the life of the loan can eliminate tens of thousands of dollars in interest payments. If you do not own a home, make a plan to save and buy a home in the future. For many people, their home is their largest asset at retirement.
- ❖ **Find out if you are on track and saving enough for retirement.** WISER's website has tools for estimating your retirement income needs and calculating how close you are to your savings goals. See the *Savings* page for retirement calculators at www.wiserwomen.org.
- ❖ **Start saving at least 15% of your gross income for retirement or try to build up to that amount.** WISER's website has budget and savings tools to help you organize your finances and get started on a savings plan.
- ❖ **Investigate long-term care insurance.** See WISER's web-site and the *Healthcare* page for more information and resources on buying long-term care insurance. If you are at least 50 years old, give serious consideration to purchasing long-term care insurance to help pay costs and protect your savings.

- ❖ **Plan to retire healthy!** Many people approach retirement in denial—assuming that health care calamities won't happen to them. But the reality is that most disabilities are due to chronic disease and not accidents. Women, with longer lifespans, are more likely to experience chronic and disabling conditions. There is also good news: according to the Surgeon General, the majority of chronic diseases are preventable with healthy lifestyle changes. Taking steps earlier in life to safeguard your health can mean living out retirement years with far fewer medical expenses. The federal Department of Health and Human Services has an internet resource center with information and tools you need. See <http://www.healthierus.gov/>

What to do if you are near retirement or already retired

Medigap Insurance: Look into buying Medigap insurance. Medigap policies are private insurance policies that pay a portion of out-of-pocket medical costs not covered by Medicare. Private Medigap insurance can help seniors afford higher medical costs.

Generally, it is best to buy Medigap policies during the open enrollment period — the 6 month time period after you enroll in Medicare Part B. During this time, you can't be denied insurance or charged more because of health conditions. Policies purchased after 1990 are guaranteed to be renewable as long as you pay the premiums on time and do not let the coverage lapse. If you buy a medigap policy

after your open enrollment period ends, insurance companies can use medical underwriting to decide whether to accept you and also how much to charge you. Investigate your options by calling Medicare at 1-800-MEDICARE (1-877-486-2048 for TTY users) and request information about medigap plans.

Prescription Drug Costs: It is not unusual for an older person to have thousands of dollars in annual prescription drug costs. Health care expenses are a major cause of poor health and depleted financial resources for seniors. Every day, seniors are choosing between their medicine or other health care expenses and food or rent.

- ❖ *Medicare Advantage Plans:* Some (not all) Medicare managed care plans offer prescription drug coverage to seniors, but these plans are not available everywhere and many seniors do not want to enroll in managed care plans. Call Medicare to find out if there are managed care plans in your area and what they cover.
- ❖ *Medicare Part D:* Beginning in 2006, a new optional prescription drug benefit became available as part of the traditional Medicare program. The new benefit, called Medicare Part D, offers coverage for a portion of a seniors' drug costs, but even with this coverage, some seniors incur significant out-of-pocket expenses. Enrolling in this part of Medicare is optional, and seniors with other choices in coverage should weigh

the pros and cons of each option and choose carefully. Seniors enrolling in a Medicare Part D plan "late", that is after May 15, 2006, pay a premium penalty of 1% for every month they delayed enrollment, unless they delayed enrollment because they already had comparable drug coverage.

Private companies administer the Medicare Part D plans and seniors opting for coverage pay a deductible, premiums and co-payments, and total costs vary by plan and individual seniors' drug use. Private plans decide which drugs they will cover, and may make changes with 60 days notice, but seniors are only permitted to change plans once a year. Seniors' experience with this plan has been mixed. A recent study by *Consumers Union* found that many of the private plans raised the costs of drugs within a few months of enrollment, leaving seniors locked into a plan for the remainder of the year with higher than expected costs. Many other seniors, particularly low-income seniors, experienced significant savings from the plans.

- ❖ *Part D "Extra Help":* Low-income beneficiaries with few assets receive "extra help" — a more substantial benefit under the new Medicare drug benefit. Eligible seniors will have much lower out-of-pocket costs for drugs. Many will pay no premium or deductibles and low fees per prescription. Contact Social Security at 1-800-772-1213 to see if you are eligible for Part D extra help.

- ❖ *State prescription drug plans:* Some states offer prescription drug help for seniors. The requirements to join and benefits offered vary from state to state but generally are targeted to low and middle-income seniors who are not eligible for Medicaid. Contact your state insurance commission or health department for more information.
- ❖ *Pharmaceutical company indigent plans:* Some pharmaceutical companies offer free drugs to low-income seniors with no means to purchase the drugs. Go to the site: www.needymeds.com for information on the programs and procedures for applying to the companies for help.

Insurance Counseling: Every state offers free insurance counseling to seniors through a program called the SHIP program. To obtain help with choosing and buying private insurance, contact a SHIP program in your area. Call Medicare at 1-800-Medicare for the nearest SHIP site. These insurance counseling services are free and provide neutral advice to any senior asking for help.

Help for Low Income Seniors

Medicaid: Seniors with low incomes might be eligible for Medicaid coverage along with their Medicare coverage. These “dually eligible” individuals can receive additional benefits beyond Medicare. Individuals participating in Medicaid must get their prescription drugs from a private company as part of the Medicare Part D coverage,

and will receive extra financial help to pay for the coverage and drugs. To find out if you are eligible for Medicaid, call the state agency responsible for administering Medicaid in your state.

Medicare Savings Programs: There are three programs that provide help with Medicare premiums, co-payments and deductibles. They are called: Qualified Medicare Beneficiary (QMB), Specified Low-Income Medicare Beneficiary (SLMB) and Qualifying Individual (QI-1). These programs, with varying levels of benefits depending on a person’s income, are also available to low and moderate income individuals who are not eligible for Medicaid. Enrolling in these programs provides a significant financial boon to eligible individuals. Many at-risk seniors do not know about these programs. Federal Medicare or SHIP programs can tell you if you are eligible.

Managed Care: Medicare contracts with private companies to provide managed health care plans, both HMOs and PPOs, as alternatives to traditional Medicare. One way to stretch your health care dollars is to investigate whether there is a good quality managed care plan in your area that accepts Medicare patients. These plans will often include benefits that seniors in the traditional Medicare plan pay out-of-pocket for, including wellness care, dental, vision care and eyeglasses. Seniors in managed care plans must get their prescription drugs through the plan. Be sure to find out in detail what the plan covers, if your drugs are covered and if any services are excluded before you sign up.

Preventive Care and Out-of-Pocket Costs

In addition to the burden of prescription drug coverage, many women are skipping important preventive or other medically necessary care because they can't afford the out-of-pocket costs in Medicare. If you do not receive all the care you need, including regular check-ups, pap smears, mammograms and colorectal screening, you will jeopardize your health. Changes to the Medicare program in recent years have resulted in new preventive benefits.

Information about these new benefits can be found on Medicare's website, or WISER's website at www.wiserwomen.org in the *Healthcare* section.

If you need more help paying for health care services, investigate the Medicaid options described above or find out if private insurance is feasible. You can also consider joining a Medicare managed care plan. Finally, call your local *Area Agency on Aging* and ask for suggestions.

A website maintained by the *National Council on Aging* provides a free, confidential on-line tool that screens individuals for a variety of federal, state and local programs that can provide significant benefits or aid to seniors in need of financial assistance in many areas, not just health care. Getting help in one area may free up dollars for needed health care services. Go to www.ncoa.org and click on *Benefits Check-Up* under the *Benefits for Seniors* tab.

Stretching or Supplementing Your Income to Cover Costs

Annuities: Many older people worry about whether they will outlive their savings. In the past, before the growth of 401(k) plans, many employers paid a pension that lasted a lifetime. Today, while some people are fortunate to still have those types of pensions, many people are on their own to manage their funds and cope with three big "what ifs" of retirement. What if I live too long, what if my investments lose money and what if inflation hurts my investments?

Obviously, there's no magic formula and no right answer. But for many people, looking into purchasing an annuity makes sense. An annuity can be purchased from an insurance company for a lump sum and can guarantee a regular monthly payment for the rest of your life. If you have, or expect to have, a large income to pay all your expenses, you may not need an annuity. But, an annuity is a good way to be certain you will get payments for the rest of your life no matter how long you live. The downside is that funds used to buy an annuity are not available to pass on to heirs. Consult a financial planner about the risks and benefits of an annuity before buying one.

Reverse Mortgages: If you own a home, you might want to consider a reverse mortgage. A reverse mortgage is a way for homeowners age 62 and over to borrow against the equity of their homes. It is a mortgage that pays the homeowner a loan as a line of credit, a lump sum, or a series of monthly payments. It works in the reverse of a conventional forward

mortgage. With a reverse mortgage, each time the homeowner receives a payment, the equity in her home decreases and debt increases.

It is important to know that the homeowner does not need to repay a reverse mortgage as long as she lives in the home. The loan is repaid when she sells the home or dies. The estate can repay the reverse mortgage when the homeowner dies with proceeds from the sale of the home or from any other source of funds.

For more information on reverse mortgages see the website of the U.S. Department of Housing and Urban Development and the publication *Reverse Mortgages for Seniors* at <http://www.hud.gov/buying/rvrsmort.cfm>.

Supplemental Security Income: If you have no or very low income and assets, you may be eligible for a federal assistance program called Supplemental Security Income or SSI. SSI is a federal income support program administered by the Social Security Administration and funded by general tax revenues to help aged, blind and disabled individuals with little or no income. Some states also provide supplements under the SSI program to special populations such as 65 and older. It supplies eligible individuals with cash for basic needs such as food, clothing and shelter. To find out if you are eligible for this program or other important benefit programs, use the NCOA's screening tool, *Benefits CheckUp* at ncoa.org.