

## Is Health Care Part of Your Retirement Plan?

Ask a group of investors aged 50 and older to identify their top financial concern relating to retirement, and chances are they'll answer "health care." With medical costs skyrocketing and limited coverage by programs such as Medicare, many retirees face expensive monthly insurance premiums and significant out-of-pocket costs. That's why it's important for pre-retirees to consider health care costs when planning for their later years and for current retirees to carefully manage their sources of income.

### A Sizable Cost

A look at the cost of health care can help put the issue in perspective. The Employee Benefit Research Institute has estimated that a 65-year-old couple that retires today would need almost \$300,000 to fund health care costs if they live to their 80's and pay monthly premiums for coverage made available by a former employer.<sup>1</sup> This figure does not take into account the cost of long-term care. Currently, the average annual cost of a private room in a nursing home exceeds \$74,000 a year.<sup>2</sup>

### Medicare: A Resource for Retirees

In general, most retirees have two options for health care coverage: Medicare and managed care. As long as you have contributed enough to Medicare (through FICA taxes), you'll be eligible when you turn 65, regardless of whether you're retired or not. To receive benefits, you must apply within a seven-month period that starts three months before your 65th birthday.

The table below summarizes the components of the Medicare program. You may want to log on to [www.medicare.gov](http://www.medicare.gov) and review *Medicare & You 2007* or call 1-800-MEDICARE for more information.

### Medicare At a Glance<sup>3</sup>

Medicare Program	Key Benefits	Cost and Payment Issues
Part A	Covers a hospital stay and some outpatient services, including equipment and tests.	No premium required.
Part B	Optional medical insurance covers doctor bills and other expenses incurred in a setting other than an inpatient hospital stay.	Premium deducted from Social Security check.
Part C Medicare Advantage Plans	Approved by Medicare and run by private companies, these plans provide Part A and Part B coverage, along with additional benefits.	Medicare pays the monthly premium to the private health plans.
Part D	Optional prescription drug coverage.	A monthly premium is required. Some Medicare Advantage Plans include this coverage.

### Managed Care

Many retirees supplement Medicare with managed care, which refers to the large variety of health plans offered through unions, insurance companies and employers. Managed care plans generally fall into two main varieties: health maintenance organizations (HMOs) or preferred provider organizations (PPOs). HMOs are generally less expensive than PPOs but may be more restrictive in their choice of doctors.

For retirees, the decision of which managed care plan

to choose often depends on local availability and cost, which can range from less than \$100 to more than \$500 a month. Some companies and unions provide health insurance as a retirement benefit to employees or members or extend coverage at group rates. Because many employers have reduced or eliminated this coverage, you may need to contact your current or former employer to determine your options.

### Long-Term Care Insurance

Many medical plans do not fully cover costs relating to nursing homes, which is why you may want to consider long-term care (LTC) insurance. This insurance covers a range of nursing, social and rehabilitative services for people who need ongoing assistance due to a chronic illness or disability. Older adults who need assistance with essential physical needs, such as bathing, dressing or eating are most likely to use LTC. Most policies pay a fixed dollar amount toward the cost of daily care in a variety of settings, including nursing homes, home health care and assisted living facilities. Since premiums are based partly on the policyholder's age at the time of enrollment, the younger you are when you purchase a policy, the lower the premium you'll pay.

### What Retirees Can Do

If you have already retired, you may know first hand how expensive health care can be. When managing your portfolio, it's important to balance annual withdrawals that are adequate to cover your living expenses in the short term with maintaining a source of growth to fund your longer-term needs.

You may want to keep a portion of your portfolio invested in stocks<sup>4</sup> and stock funds throughout your retirement. In addition, fixed-income investments may provide a consistent stream of income. An investment portfolio with these and other elements may help complement withdrawals that you may be required to take from a qualified retirement plan (such as an employer-sponsored plan or an IRA) after age 70.<sup>5</sup> Your financial advisor can help you create a strategy that suits your risk tolerance and time horizon.

<sup>1</sup> Source: *Employee Benefit Research Institute*, July 26, 2006.

<sup>2</sup> Source: *American Association of Homes and Services for the Aging*.

<sup>3</sup> Source: *Medicare & You 2007*, U.S. Department of Health and Human Services.

<sup>4</sup> Stock investing involves risks including loss of principal.

<sup>5</sup> Distributions will be subject to taxation upon withdrawal at then-current rates. In addition, early withdrawals before age 59 may be subject to a penalty tax.

*This article is not intended to provide specific investment or tax advice for any individual. Consult your financial advisor, your tax advisor, or me if you have any questions.*

