
Health Care Planning In Retirement

Health care planning is a key part of the overall retirement planning process. Although a healthy life-style and good genes can help, it is a fact of life that as we age we need more medical care. Federal government statistics highlight this reality:

Per-Capita U.S. Personal Health Care Spending¹

Age Group	2012	2014	2016	2018	2020
0-18	\$3,690	\$3,711	\$3,828	\$3,974	\$4,217
19-44	4,579	4,989	5,703	6,138	6,669
45-64	8,878	9,797	10,761	11,329	12,577
65-84	17,030	16,841	17,591	18,563	20,503
85+	31,977	31,985	31,931	33,780	35,995

Medicare

There are a number of ways that retired individuals pay for health care. Some are able to pay cash. Others are covered by health insurance plans provided by former employers or under coverage available through a spouse who is still working. For the majority of Americans age 65 and older, however, most health care is provided through the various elements of the federal government's Medicare program:

- **Medicare Part "A" Hospital Insurance:** Provides coverage for inpatient hospital care, post-hospital skilled nursing facility care, home health care, and hospice care.
- **Medicare Part "B" Medical Insurance:** Includes coverage for doctor's services and outpatient care as well as some preventive services to maintain your health or prevent certain illnesses from getting worse.
- **Medicare Part "C" Medicare Advantage Plans:** An alternative to the "classic" Medicare program. Under Medicare Advantage, health care is provided by private companies approved by Medicare. These plans include Part A and Part B and usually provide other coverage, including prescription drugs.

¹ Source: Centers for Medicare and Medicaid services, Office of the Actuary, National Health Statistics Group. Total Personal Health Care Per Capita Spending by Gender and Age Group, calendar years 2012, 2014, 2016, 2018, and 2020, in level dollars. See: <https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/age-and-sex> Table 7, downloaded December 4, 2023.

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- **Medicare Part “D” Prescription Drug Coverage:** Helps cover the cost of prescription medications.

Medicare Supplement Insurance (Medigap) Policies

The original Medicare program will pay for many, but not all, health care services and supplies. Many retirees will also consider purchasing a “Medigap” policy, sold by private insurance companies, to help pay some of the health care costs (the “gaps”) that the original Medicare program does not cover, including copayments, coinsurance, and deductibles.

Medigap policies provide standardized coverage (in most states identified by the letters A, B, C, D, F, G, K, L, M, and N)¹ and must follow federal and state laws designed to protect the consumer. Each standardized Medigap policy must provide the same basic coverage; cost is frequently the only difference between the same Medigap policy sold by different insurance companies. In some states, another type of Medigap policy, called Medicare SELECT, may be available. Medicare SELECT policies typically require you to use specific hospitals or doctors.

Planning For Incapacity

Retirement health care planning must also consider “incapacity.” Major health problems such as a stroke, a heart attack, the onset of Alzheimer’s disease or other forms of dementia, or simply becoming weak and frail from advancing age can result in your no longer being able to care for yourself or manage your own affairs. There are two key issues to consider:

- **Paying for “custodial” care:** Medicare and other types of health care insurance are designed to cover “acute” medical conditions. They do not pay for costs associated with “custodial” or “maintenance” care, such as might be needed by an individual whose health problems require nursing home care. With median U.S. nursing home costs for a semi-private room in 2021 of \$260 per day (\$94,900 per year),² the cost of such custodial care for even a short period of time can be enormous.

Rather than pay these costs “out-of-pocket,” many individuals purchase a Long-Term Care (LTC) insurance policy. For individuals without LTC insurance coverage, the jointly-run, federal-state Medicaid program may be able to pay for custodial care, once personal assets are exhausted.

¹ In Massachusetts, Minnesota, and Wisconsin, Medigap policies are standardized in a different way.

² See the Genworth Cost of Care Survey 2021, downloaded December 4, 2023.

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- **Managing personal affairs:** If an individual is no longer able to manage his or her personal affairs, someone else will need to step in and take over. In planning for this possibility, three key documents should be considered:
 - **Durable power of attorney:** A written document by which one person (the principal) empowers another person (the agent or attorney-in-fact) to act in his or her behalf; often used for management of financial affairs.
 - **Living Will:** Also known as a “Directive to Physicians”, this document provides guidance as to the type of medical treatment to be provided (or withheld) and the general circumstances under which the directive applies.
 - **Durable power of attorney for health care:** Many states have laws allowing a person to appoint someone to make health care decisions for them if they become unable to do so themselves.

Seek Professional Guidance

Planning for health care and incapacity in retirement involves answering a number of complex questions. The guidance of trained professionals in insurance, medical benefits, as well as the counsel of an estate planning attorney, can be invaluable in designing and implementing an effective health care plan.

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