

# Health care and retirement

## *Important information for your retirement income planning*

***The rising cost of health care in America has become one of the primary risks to a financially secure retirement. Health care costs are expected to continue to increase faster than inflation, and many employers are re-evaluating their ability to offer retiree health insurance coverage. As you make the transition to retirement, ensuring that you have secured health care coverage and accounted for health care costs in your retirement income planning is critical.***

### Health care expenses in retirement

When looking ahead and planning for your retirement years, you'll want to ensure continuous health care coverage and budget to take into account the rising costs of health care. Longevity is a critical factor that is driving these costs. Individuals at age 65 have a high probability of spending 20 years or more in retirement. While estimates vary, couples could need approximately \$326,000 in total to cover health care costs in retirement. A single man would need \$156,000 and a woman \$176,000.<sup>1</sup> Medicare will help, but it won't cover all costs and it's not available until you turn 65. It's important to work with your Financial Advisor to consider rising health care costs when mapping out your retirement income plan.

#### Enroll in Medicare at 65 if you're retired

Medicare is the primary health insurance provider for most Americans 65 and older. It's best to visit your local Social Security office three months before your 65th birthday to enroll in Medicare. Keep in mind that you will have to pay monthly premiums and copayments. Do not wait to enroll, as you will be penalized for late enrollment.

#### Basic Medicare consists of Part A and Part B

Part A covers inpatient hospital care and is free for most individuals. It helps cover the costs of hospitalizations, but you'll pay a deductible, usually for each hospital admission. Part B, medical insurance, covers doctor visits and outpatient care. You'll pay a monthly premium and will have a 20% co-payment after reaching the annual deductible for Part B.

Medicare Part C, or Medicare Advantage plans, is offered by private insurers and usually package traditional Medicare Part A and Part B with extra benefits such as dental, vision, and wellness coverage. With most Medicare Advantage plans, you pay the regular Medicare Part B premium and an additional premium. The price will vary depending on where you live and what type of coverage you choose.

Prescription drug coverage is available under Medicare Part D. However, you must pay a monthly premium (which varies by plan) and a yearly deductible for this coverage. You must also pay a part of the cost of your prescriptions, including a copayment or coinsurance. Costs will vary depending on which drug plan you choose.

Because Medicare will not pay for all of your medical or prescription drug costs, you may wish to buy a supplemental, or Medigap, insurance coverage. Medigap is Medicare supplement insurance sold by private insurance companies that can pay deductibles, copayments, and some other out-of-pocket costs associated with Part A and Part B. You must already have Medicare Parts A and B in order to purchase a Medigap policy and will pay a separate premium — in addition to the monthly premium you pay for Medicare Part B.

To learn more about Medicare, visit the official website at [medicare.gov](https://www.medicare.gov) or phone 1-800-MEDICARE, 24 hours a day, seven days a week.

## Talk to Wells Fargo Advisors

Understanding how health care costs affect your retirement is essential to putting together a retirement income plan that truly meets your needs. Few people approaching this time in their lives have all the answers. That's why sitting down with your Financial Advisor can help you make more informed and realistic decisions about what lies ahead.

## What if you want to retire early?

Finding interim health insurance, before Medicare kicks in at age 65, is an increasingly common problem. If you're lucky, your employer may offer retiree health care benefits — until Medicare coverage begins — as part of an early retirement package. If not, you'll have to purchase coverage on your own. Here are some options to consider:

### Getting group coverage

If you want to continue working part-time or on a consulting basis, you may be eligible for group coverage at lower rates from a trade or industry organization, or even your alumni association.

### Health Insurance Marketplace

As a result of the Affordable Care Act, you can now use the **Health Insurance Marketplace** to buy a plan that meets your needs.

The Health Insurance Marketplace offers a wide variety of plan options from top carriers across the country. The ACA dictates that all plans offer 10 essential health benefits, including coverage for hospital stays and prescription drugs. You can enroll in Health Insurance Marketplace coverage during the annual enrollment period or if you experience a qualifying life event. Losing employer health benefits is a qualifying life event and you can enroll in a marketplace plan immediately. Depending on your income and family size, you may be able to get lower costs on your monthly premiums and out-of-pocket costs. The lower your income, the lower your costs.

For more information, visit [healthcare.gov](http://healthcare.gov).

### Consider COBRA coverage

COBRA, the Consolidated Omnibus Budget Reconciliation Act, is a federal law that requires most employers to offer former employees group health insurance for 18 months after termination of employment. Although group health coverage may be continued at group rates, continuing coverage under COBRA may be expensive. COBRA premiums can be up to 102% of the cost of coverage (102% of the employee cost plus employer cost) under the group health plan.

COBRA was intended to help individuals and their dependents keep health insurance coverage for a temporary period of time while they found a new employer who provided health benefits. It was especially important for individuals with pre-existing conditions that made it difficult to find affordable individual coverage. However, now that the Affordable Care Act (ACA) is in place, no individual can be denied coverage based on their pre-existing conditions and Americans no longer need to rely on COBRA or health insurance from an employer. The ACA marketplaces offer more health insurance options, better benefits, and generally lower costs than COBRA.

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<sup>1</sup>Source: EBRI.org Notes, Oct. 2014, Vol.34 No. 10. The amounts shown give retirees a 90% chance of having enough savings to cover health care costs. This assumes retirees are in the 90<sup>th</sup> percentile of prescription drug expenses and have Medigap health benefits to supplement Medicare, Part B and D premiums and their former employer does not subsidize premiums.

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