



**Sandy Worner, CPA, CFP®**  
Vice President  
Director of Financial Planning

**Bobbi Putman, CFP®**  
Financial Planner

## The Cost of Healthcare during Retirement

You have spent the majority of your life chasing one finish line; retirement.



Regardless of the preparation and care you have put into planning for your retirement years, often times there is one obstacle that you, along with many retirees, have not adequately considered. That hurdle is the cost of healthcare. Unexpected healthcare expenses can solitarily reroute your path to an enjoyable and relaxing retirement.

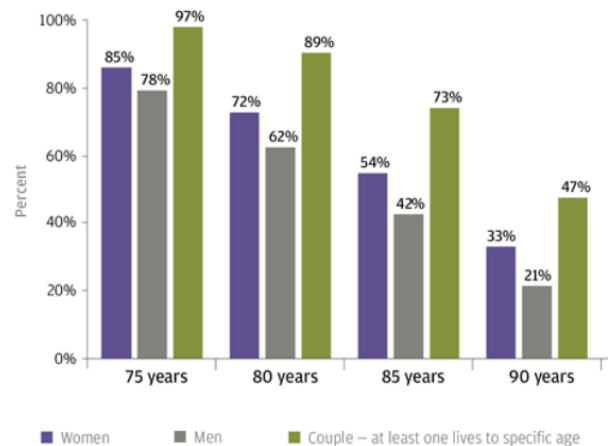
### Longevity

Ongoing advancements in modern medicine coupled with increased awareness of the benefits of maintaining healthy habits have resulted in people living longer than past generations.

In fact, there is nearly a 50% chance that one spouse of a 65-year-old couple will live to be at least 90 years old.

It is not uncommon for today's retiree to experience twenty-five years or more in retirement. While Medicare does kick in at age 65, out-of-pocket medical expenses are still expected to be a significant piece of the retiree's budget.

If you're 65 today, the probability of living to a specific age or beyond



Source: Social Security Administration, J.P. Morgan Asset Management.

### Inflation

Inflation measures price increases of goods and services from one year to the next as reported by the Consumers Price Index (CPI). Per the CPI, the overall inflation rate for 2014 was 1.7%. Additionally, inflation averaged 2.5% for the twenty years from 1990 to 2010. These broad spending increases appear modest and manageable.

However, if a large portion of your budget consists of healthcare expenses, as is true for many older Americans, you will be realizing inflation at a much higher rate than the typical consumer. In fact, inflation in the healthcare category from 1982 to 2014 averaged 5% per year.

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1004 N. Michigan Ave.  
Saginaw, MI 48602  
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East Lansing, MI 48823  
(517) 827-0045

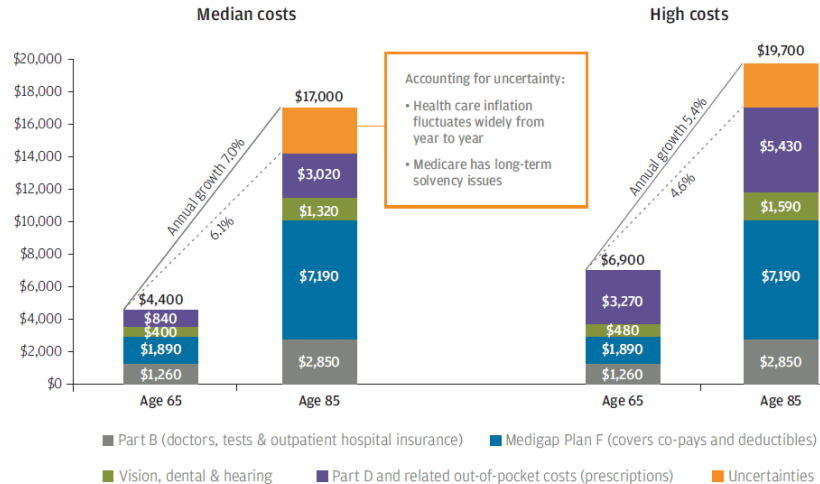


200 E. Main St., Suite 100  
Midland, MI 48640  
(989) 492-7620

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## Estimated Costs

Fidelity estimates that a couple retiring at age 65 will require \$220,000 of accumulated savings for the sole purpose of funding medical expenses throughout retirement. As startling as this projection is, many financial advisors would actually argue that the figure is understated.



Source: Employee Benefit Research Institute (EBRI), data as of December 31, 2014; SelectQuote data as of December 31, 2014; Consumer Expenditure Survey data 1984-2014; Kaiser Family Foundation "Medicare Part D in its Ninth Year: The 2014 Marketplace and Key Trends, 2006-2014." J.P. Morgan analysis.

A quick calculation for a 65-year-old retired couple assuming averages previously noted:

- \$8,800/year out-of-pocket medical expenses (\$4,400 per person)
  - 5% annual inflation (average over the last 20 years ending 2010)
  - 20 years of retirement (life expectancy of age 85 for both spouses)
- \$315,000 needed at the beginning of retirement (versus \$220,000)

## Solutions

### Save More

- Be proactive and develop a savings strategy today to fund healthcare expenses in the future.
- If invested in an account earning a 6% rate of return, you would need accumulated savings of \$160,000 at retirement versus \$315,000.

### Retire Later

- Retiring before Medicare eligibility will significantly increase out-of-pocket medical costs.
- The longer you can benefit from employer subsidized healthcare, the more money you can retain for your retirement.

### Open an HSA

- Health Savings Accounts are available to those with high-deductible healthcare plans.
- When used for qualified medical expenses, your HSA will completely shelter funds from taxes.
- After age 65, non-medical expense withdrawals will not incur a penalty.

### Live Healthy

- Maintain a healthy diet.
- Regularly exercise your body and mind.
- Get plenty of rest.
- Stay active.
- Schedule routine medical check-ups.
- Do not ignore signs and symptoms.

Please reach out to a Tri-Star Trust Bank financial advisor if you would like to discuss your best options for planning for healthcare expenses during retirement.