Health care in retirement:

What you need to know about health care expenses and Medicare

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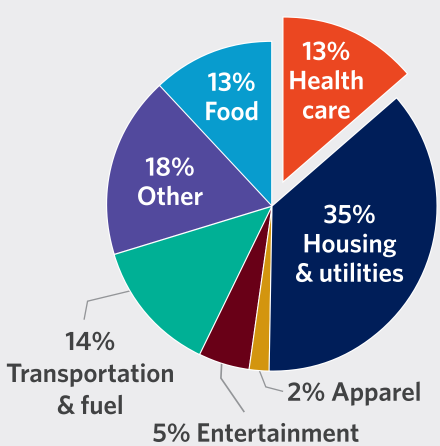
Advances in health care are providing opportunities for a longer retirement and better quality of life. But with this trend comes rising costs. To live the retirement lifestyle you desire, it's important to understand health care costs and develop a strategy with your financial advisor to cover them.

Thirty years ago, retirees spent almost twice as much on food as on health care. Now the amounts are nearly the same. Health care continues to become a larger share of retirees' expenses.

Retiree household expenditures



Average expenditures for a household age 65 and older in 2022.
Source: Bureau of Labor Statistics.

Estimating your health care expenses

In general, there are two categories of medical expenses in retirement: traditional and long-term medical care. Initially budgeting $4,500–$6,500 per person annually for traditional medical expenses may be a good starting point. For long-term medical care, the amount budgeted depends on how you plan to cover these costs. While a full discussion on long-term care is beyond the scope of this report and covered in the "Preparing for the unexpected: Planning for long-term care expenses" report, we provide an overview on Page 4.

Traditional medical expenses

For traditional medical expenses, it all starts with Medicare. Average annual premiums for an individual with Parts A, B and D and Medigap could be more than $4,000 (as highlighted on Page 2), and there are still out-of-pocket costs Medicare doesn't cover.

For example, Medigap Plan F was eliminated for new enrollees in 2020, so all new Medigap Plans will not cover the Part B deductible, which is $240 in 2024. As mentioned on Page 1, initially budgeting $4,500–$6,500 per person annually may be a good starting point. Depending on your health, prescription drug usage and the supplemental insurance coverage you select, your costs could be higher or lower.

2024 estimated annual Medicare premiums	
Part A annual premium	$0*
Part B annual premium	$2,100
Part D average annual premium	$500
Medigap Plan G estimated annual premium	~$1,800 – $3,000

Source: Medicare, Kaiser Family Foundation, Centers for Medicare & Medicaid Services and Edward Jones estimates. Amounts are rounded to the nearest hundred. Medigap and Medicare Part D are offered by insurance companies and are not standard parts of Medicare. With the elimination of Plan F for new enrollees in 2020, Plan G has the most similar coverage, with the exception of the Part B deductible. Actual Part G premium will vary based on age, sex, tobacco use and geographic location and may be higher or lower than the estimated range.

* Must have paid 40 quarters of Medicare tax while employed. If paid fewer than 30 quarters, the premium is $505/month. If paid Medicare taxes for 30–39 quarters, the premium is $278/month.

To learn more about Medicare and supplemental insurance, please refer to Medicare.gov. Having a better estimate of these costs can help you and your financial advisor determine whether your financial strategy is positioned to provide for your needs — and, if not, what adjustments may need to be made.

Medicare premiums — Your income matters

Medicare Parts B and D premiums are tiered by your income or, more specifically, your modified adjusted gross income (MAGI). Your MAGI includes your adjusted gross income and tax-exempt interest. Any MAGI above $103,000 (single) or $206,000 (joint) is subject to higher premiums for Parts B and D (referred to as an income-related monthly adjustment amount or IRMAA). The following table shows the amounts added to the base Medicare Part B and D premiums for 2024 for those who are subject to IRMAA.[1]

MAGI from 2022[2]		Part B enrollees Surcharge for 2024 *(in addition to the Part B premium)*[3]		Part B and D enrollees Surcharge for 2024 *(in addition to the Part B & D premium)*	
Individual[4]	**Married filing jointly[5]**	**Monthly**	**Annual**	**Monthly**	**Annual**
$103,000 or less	$206,000 or less	N/A	N/A	N/A	N/A
$103,001 – $129,000	$206,001 – $258,000	$69.90	$838.20	$82.80	$993.60
$129,001 – $161,000	$258,001 – $322,000	$174.90	$2,096.40	$208.00	$2,496.00
$161,001 – $193,000	$322,001 – $386,000	$279.50	$3,354.00	$333.30	$3,999.60
$193,001 – $499,999	$386,001 – $749,999	$384.30	$4,611.60	$458.50	$5,502.00
$500,000+	$750,000+	$419.30	$5,031.60	$500.30	$6,003.60

[1] Source: ssa.gov.

[2] Or 2021 if 2022 isn't available.

[3] For 2024, the base premium for Part B is $174.70 per month.

[4] Single, head of household or qualifying widow(er) with dependent child.

[5] For married filing separately: Those with MAGI from 2022 of $103,001–$396,999 are subject to a surcharge of $384.30/month for Part B premiums and $458.50/month for Part B and D premiums. Those with MAGI from 2022 of $397,000 and above are subject to a surcharge of $419.30/month for Part B premiums and $500.30/month for Part B and D premiums.

Strategies to help prevent higher premiums

It may be beneficial to consider ways to reduce your MAGI strategically, particularly if your income is near the boundaries of the income tiers on Page 2, to avoid paying higher premiums. For example, the following are not counted toward MAGI:

- **Roth IRA/Roth 401(k) distributions**
- **Health Savings Account (HSA) distributions (when used for qualified medical expenses),** which can be used to cover Medicare (non-Medigap) premiums and other out-of-pocket medical expenses.
- **Qualified charitable distributions (QCDs) from an IRA when satisfying the required minimum distribution (RMD) —** QCDs have specific rules, so we recommend consulting a tax professional.

If your income is volatile from year to year or it declines to the point where the IRMAA should no longer be applied, it's critical to work with your tax professional and notify the Social Security Administration that your income has changed, so you are not paying higher premiums unnecessarily.* Working with your financial advisor and tax professional can help you understand how your health care costs affect your retirement strategy and determine ways to prevent you from paying higher premiums based on your income.

* You can complete Form SSA-44: *Medicare Income-Related Monthly Adjustment Amount — Life-Changing Event*, which can be used to appeal an IRMAA.

The benefits of HSAs

HSAs in particular can be a valuable tool in retirement.

- HSAs have triple tax benefits — contributions are tax deductible, they grow tax free and distributions are tax-free if used for qualified medical expenses.
- Distributions do not count against MAGI if used for qualified heath care expenses, which could help reduce your MAGI if you are subject to IRMAA.
- While there is a 20% penalty for distributions not used for health care expenses before age 65, distributions not used for health care after reaching age 65 are penalty free and would be taxed as ordinary income, similar to a traditional IRA. Note that these distributions would count toward your MAGI.
- There are no RMDs on HSAs.

Given the above benefits, it may make sense to forgo using your HSA on health care expenses before you retire, instead saving your HSA to be used in retirement. Also understand that once you enroll in Medicare, while you can withdraw from your HSA, you can no longer contribute to an HSA. For more details about HSAs, you can check the "Five things to know about HSAs" report.

Medicare doesn't cover everything

Considering Medicare-approved insurance plans

Traditional Medicare covers items such as in-hospital expenses (Part A), doctor services, outpatient care and some preventive services (Part B). But some costs aren't covered, including:

- Medicare premiums, deductibles and coinsurance
- Prescription drugs
- Routine dental, hearing and eye care/exams
- Long-term care stays

Medicare-approved insurance companies can help fill in the gaps of Part A and Part B. Part D provides prescription drug coverage. Medigap covers some gaps in Parts A and B, typically including deductibles for Part A, and coinsurance and copays for Parts A and B. Alternatively, Part C (also called Medicare Advantage) is an option designed to include Parts A, B and potentially D. That said, long-term care costs are still not covered by any plan.

Planning for long-term care

One of the largest potential health care costs not covered by Medicare is long-term health care. A yearlong stay in a nursing home averaged almost $95,000 in 2021.* Medicare and Medicare-approved insurance plans do not cover long-term care costs. Medicare covers only short-care stays (up to 100 days) stemming from a recent hospitalization.

While long-term care may be a difficult topic, active planning and discussion about how you want care to be administered and how to cover these costs can better position you, your family members and your retirement strategy if the need arises. You may decide either to self-insure against a long-term stay or consider long-term care insurance, as well as newer insurance options combining life insurance with long-term care coverage.

Regardless of your decision, a healthy retirement strategy includes some preparation for a potential long-term care stay, so it's important to work with your financial advisor to include an estimate for long-term care costs in your retirement strategy.

*Source: Genworth 2021 Cost of Care Survey; semi-private room.

Avoiding enrollment penalties

If you do not enroll for Medicare when eligible at age 65, penalties can apply to Parts B and D premiums (and potentially Part A). These penalties can be permanent. However, sometimes you may be able to delay enrollment and not be penalized, such as if you are still working and covered by an eligible group plan. That said, it's important to understand your enrollment deadlines to avoid potential penalties.

An ounce of prevention ...

To help prepare for the cost of health care during retirement, we recommend you:

Outline your retirement goals. This includes when you want to retire, which will determine whether there are gaps in coverage before you become eligible for Medicare at age 65.

Know the key dates to avoid penalties. Medicare has a seven-month window for enrolling that begins three months before your 65th birthday. For individuals who have delayed enrollment past age 65 due to remaining on an employer's plan, there is an eight-month special enrollment period after you separate from your employer.

Evaluate insurance options. For Medicare Part D and Medigap or Part C, ensure you select a plan aligned with your needs.

Develop a strategy for long-term care. Whether it's through budgeting or purchasing insurance coverage, determine how you may pay for a potential long-term care need.

Estimate your costs. The information we've shared is a start, but we recommend estimating based on your situation, supplemental insurance (if selected) and potential out-of-pocket costs.

Invest for growth and rising income. To help hedge against rising costs, as well as provide for future income needs, a portion of your assets should be allocated to investments with the potential for growth and rising income.

Consider health care directives. Consult your attorney about who is responsible for your health care decisions and how you want care to be administered if you become unable to make these decisions yourself.

A healthy retirement portfolio

You can't control rising health care costs, but you can prepare. Health care is just one of many important factors to review prior to your retirement, such as when to take Social Security and how to generate sufficient income during retirement. Your Edward Jones financial advisor can work with you to better understand your desired retirement lifestyle, estimated expenses (including health care) and income sources to develop a retirement strategy that helps you achieve these goals.

We have provided this information for educational purposes; it isn't meant to promote the sale of insurance or investments. Edward Jones doesn't offer health insurance; however, we believe discussing the impact of health care costs within your retirement strategy is important, especially considering that rising health care costs may affect many investors approaching retirement. The examples used in this report are for illustrative purposes only and shouldn't be relied upon as a quote or description of coverage for a particular insurance product. While the Medicare content is believed to be accurate, you should rely on information provided by that organization before making a Medicare decision.

