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Consider Long-Term Health Care Costs When Planning for Retirement

Developing a financially sustainable plan for retirement can be one of life's most stressful processes.

Those considering retirement need time to look at the many factors – some of which are unknown – that affect us when we look into a future that we have not yet experienced firsthand.

As retirees, we need to not only consider our income, but also our expenses over a retirement that could last as long as 30 years. Retirement for baby boomers and beyond includes a future where two of the most critical aspects of retirement planning – our health and longevity – remain unknowable.

Yet the “health care side” of retirement – costs, need and accessibility to health care for ourselves or loved ones – can be one of the most significant factors in the planning process.

Long-term health care may be a considerable expense—the majority of it usually expended during the last three years of life.

Former First Lady Rosalynn Carter has this humbling scenario exactly right when she says: “There are four kinds of people in the world: those who have been caregivers; those who currently are caregivers; those who will be caregivers; and those who will need caregivers.”

Health care spending has far outpaced inflation over the past decade. Health care costs have risen close to six percent annually, while core inflation has risen about 2.5 percent, according to a U.S. Bureau of Labor Statistics Inflation Rate Study, 2003-2012. Clearly, when something in our grocery basket of life rises three times the level as other purchases, it begs attention.

So the question becomes, what do we do about rising long-term care costs? Like anything else, we can attempt to plan and budget for it. But how can we plan for long-term health costs if we don't know how long we'll live and what our health will be like?

First, we need to look at our cash flow in retirement – monthly income versus expenditures. This will vary person to person, from family to family. So, let's work backwards, looking first at health care expenses.

Go to www.medicare.gov and read the 2013 and 2014 costs at a glance; you'll find that the annual cost of Medicare Parts A, B and D this year cost approximately \$1,700.00 for an individual. If you add a supplemental “Medigap” C plan, you add approximately \$2,200.00 per year in premiums, or a total of close to \$4,000.00 per person and \$7,900.00 per couple.

While we don't know the extent of your total premiums and health care costs under Medicare, we can try to plan based upon a couple of factors:

First, a 2013 report by the Employee Benefits Research Institute suggests that a 65-year-old retired couple will need to fund \$255,000 to \$360,000 in Medicare premiums alone (including Medigap). Medicare, in fact, covers only about 62 percent of medical costs.

Second, it's important to remember that Medicare does not cover long-term health care. Only when you run out of dollars does Medicaid step in to fill that gap. This means that costs for in-home health care and nursing homes have to be covered by other sources – our own, our children's resources, a long-term care insurance policy, or a combination of the above.

Here are some questions to consider when planning for a retirement that covers the costs of long-term health care:

--Will you have all the savings and assets on hand at retirement to cover all or most of your projected health care costs?

--Are you and/or your spouse in reasonably good health now and does your family have a track record of living into their 80s or 90s?

--Will you work during any stage of retirement and earn money?

-- Do you know when you want to start taking Social Security, and why?

--What do you project will be your annual income and expenses during retirement, and have you factored in the need to increase your annual income beyond inflation to address potentially higher health care costs?

--If you need long-term care, have you factored in what those needs and costs might be?

--Do you have an understanding of various types of long-term care insurance policies, how they can be funded, what they provide, and for how long?

Consulting financial and tax advisors as part of planning the retirement process is essential to get the health care piece covered. Enjoying truly golden retirement years means a lot of different things to different people, but it should include planning for long-term health care now so we obtain the end-of-life care we desire without becoming a burden on our children or the state.

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