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Growing health care costs threaten to consume retirees' savings

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PLANNING FOR A LONGER RETIREMENT

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As Americans live longer and health care costs surge, underestimating the impact of medical costs could dash your plans for a comfortable retirement. Many Americans are already behind in saving for retirement — and medical care often doesn't even factor into their calculations.

Longevity has its benefits, of course, especially for those fortunate enough to enjoy good health into old age. Yet even with coverage from Medicare, Fidelity Investments projects that a 65-year-old couple will need about \$200,000 to cover 20 years of health costs. That doesn't even include the cost of over-the-counter drugs, dental services or long-term care.

Retirees who leave their jobs before age 65, when Medicare kicks in, face even steeper expenses. They do, that is, unless they're among the lucky 30% of workers — most of whom hold government jobs — who still receive health benefits in retirement.

Fewer and fewer workers receive retiree health benefits, according to analyses by the Employee Benefit Research Institute. Only 13% of private-sector workers are offered such coverage now. Even some local and state government jobs are expected to phase out retiree coverage, particularly for recent hires.

So, what will you need? If you retire before 65, you'll need health care coverage. Don't fall into the trap of thinking you can go without insurance, unless you're very wealthy.

You should go without insurance "only if you can afford a serious illness, which could run \$100,000 to \$200,000," says Gary Claxton, who studies health care costs for the Kaiser Family Foundation, a non-partisan think tank.

Just a few days in a hospital could set you back tens of thousands of dollars. Plus, because you're uninsured, you might have to pay full charges, rather than the negotiated discounts that insurers receive from hospitals and other providers.

Drug costs, too, are something to ponder if you go without insurance. A diagnosis of cancer could mean you'd need drug therapy that could run into the thousands per month.

Without retiree coverage from your former employer, what are the insurance options for someone who isn't yet Medicare

age?

"It's very bleak," says Gail Shearer of Consumers Union, publisher of *Consumer Reports* magazine. "There are not good options for early retirees."

Here are some ideas:

- If you retire before your spouse, see if his or her health benefits through work will cover you. Usually this will cost extra, but it's likely to be far cheaper than buying a policy on your own.
- Ask your employer, before you leave, if you can stay on the company plan. Some companies allow continuation so long as you pay the full cost of the plan.
- Even if you can't remain on the company plan, you might be able to temporarily keep insurance coverage through COBRA (which stands for Consolidated Omnibus Budget Reconciliation Act). That's a federal law that lets you keep group coverage for 18 months. But you'll pay the full amount that your former employer paid. After those 18 months, if you're not yet 65, you'll have to buy an individual policy.
- Call insurance brokers and check online insurance sites to find coverage on the individual market.

Mark Bass, a financial planner in Lubbock, Texas, says he often recommends policies with high deductibles — \$5,000 or so — coupled with tax-free health savings accounts. Money taken out of the savings account pays for health care at pretax rates. Any unused money can roll over for future costs.

Keep in mind that buying an individual policy requires that you be underwritten. It means the insurer can check your medical history and decide whether to grant you insurance — and how much to charge — based on your medical history.

When Kathy Preziosi of Prospect Heights, Ill., retired at 56 from her marketing research job, she stayed on an employer plan. But at more than \$500 a month, she found it expensive. She looked at individual policies but was turned down because she takes a cholesterol medication.

Three years later, she tried again. This time, she was accepted for a policy that costs about \$200 a month less than her former employer's plan — though the policy excluded any health condition related to cholesterol for one year.

For retirees, getting insurance is just the first step. Be prepared for the premiums to go up every year. And you might not be able to get coverage at *any* price if you've had significant medical problems. Financial planners say it's best to check into this before you check out of your employment.

Bass says he tells clients that they can't afford to retire if they can't get health insurance. "It's not worth risking your retirement just because you could not stand working for an extra six months," he says.

Not all bad news

The news isn't all bleak, according to the insurance industry. A survey of its member companies by Americas Health Insurance Plans found about 70% of people 60 to 64 were offered coverage. But costs vary widely, depending on your age, medical history and area of the country you live in.

The survey found that 2004 premiums for a single person 60 to 64 averaged \$4,185 a year, compared with \$1,170 for a person 18 to 24.

For a family policy, premiums averaged \$7,248 for families headed by a person 60 to 64. Those figures don't include deductibles, co-payments and other out-of-pocket costs.

For those with serious medical histories, some states have high-risk insurance pools, which are expensive but will insure people whom commercial insurers have rejected. Not all states have such pools, though. And even if they do, waiting lists

can be long.

This is "one good reason for people to think about delaying retirement," Shearer says. "It's also a reason that Congress should do something to extend Medicare coverage to younger age groups, even if people have to pay the full premium themselves."

But let's say you wait till 65 to retire. You'll have Medicare, so you're home free, right?

Not by a long shot. Medicare covers many things and now even covers prescription drugs. But you'll still have to pay significant costs yourself for some procedures. And some services aren't covered at all by Medicare.

Nursing home care, for example, is fully covered for only 20 days and only if you spend at least three days in the hospital beforehand.

After that? You'll need to pay for nursing home care yourself, or see if you qualify for Medicaid, the federal-state program for the poor.

Medicare doesn't cover hearing aids. Nor does it cover most dental care, routine eye care, most eyeglasses and some diagnostic tests.

One option some retirees consider is joining a Medicare Advantage plan, which is an alternative to traditional Medicare. These plans can be less expensive than traditional Medicare and may offer additional benefits. The trade-off is that you could be limited in your choice of doctors and hospitals.

Homer Franklin had a choice of Medicare Advantage plans in Houston, where he lives. The one he chose costs \$25 a month. Franklin says he recently broke his hip and spent a couple of weeks in a hospital. His only charge was \$375 for physical therapy.

His wife, Helen, chose to keep traditional Medicare so she'd have a greater choice of doctors. Between Franklin's HMO costs, his wife's Medicare coverage and a Medicare supplemental policy that covers some things Medicare doesn't, the pair spent about \$3,900 on insurance last year. Drug costs added \$3,000 more to their tab.

Franklin's advice?

"Start shopping around" before retiring so you know what your options are. "We looked at 10 different (supplemental) policies before we chose one."

Medicare members pay \$88.50 a month for what's called Part B of Medicare. Part B helps cover doctor visits, outpatient hospital care and some home health services. That amount has risen rapidly in recent years. Medicare members pay a portion of Part B costs. So as costs have risen, premiums have, too. By the time you retire, the monthly amount is sure to be higher.

You'll also pay a deductible when you go to the doctor or the hospital: 20% of doctor charges and \$952 for a hospital stay of one to 60 days. If your hospital stay lasts longer, your fee rises to as much as \$465 a day.

Unlike with many plans offered to working-age adults, there's no out-of-pocket maximum in Medicare. So you could be on the hook for thousands of dollars.

To help defray those costs, some insurers sell Medicare supplemental policies, which cover some of the co-payments and deductibles Medicare requires.

The supplemental plans aren't cheap, and prices vary widely. Weiss Ratings recently examined the costs of plans offered by 117 insurers.

For the same type of coverage, the average cost nationally for a 65-year-old woman ranged from \$1,559 to \$3,443 a year,

depending on the insurer.

Drugs covered now

Starting this year, drugs are covered under Medicare. Dozens of insurers offered hundreds of different plans, with premiums ranging from a couple of bucks to more than \$30 a month. Some plans have deductibles of up to \$250 a year. And all charge something at the pharmacy for each prescription.

Those who use numerous or expensive drugs and sign up for the program could still expect to spend \$3,600 of their own money before the program's "catastrophic" coverage kicks in — meaning the government picks up 95% of the tab.

Not every elderly person ends up in a nursing home. But if you or your spouse does, it can be crushingly expensive. A study by Genworth Financial found the average cost for a private room in a nursing home in 2005 was \$69,000 a year. The average cost of a one-bedroom assisted-living facility was \$30,000.

Assisted-living facilities are for those who don't need as much medical attention. They're usually paid for by the residents or their families.

Home care is also costly. In the Genworth survey, the average hourly rate for home health aides was about \$18. For homemaker services, the average hourly rate was about \$16. If you want a registered nurse, rates are higher.

Medicaid pays for much of the nursing home care in the USA. But qualifying for Medicaid requires strict limits on income and assets.

Some long-term care policies cover nursing home care, assisted living and/or home care. They're expensive, though. And some have restrictive clauses on when they kick in. Often, you must be unable to meet "activities of daily living," which include such things as eating, bathing and using the toilet.

Before buying, make sure you understand the policy and just how disabled you must be for it to take effect. Make sure you have enough money to cover premiums. Otherwise, you may pay in for years but then have to drop the coverage.

There's no magic number for how much money you'll need to cover nursing home or home help care in retirement. The only certainty is this: The more you have, the better off you'll be.

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