Delaware Life®

Retirement Education

Health care costs in retirement: What to keep in mind

Estimating costs and making Medicare coverage decisions are important.

Money and health are two big concerns for nearly everyone in or approaching retirement, which makes health care planning an important part of preparing for retirement.

Health care impacts your retirement planning in several ways. You need to:

- Budget for health care coverage and out-of-pocket costs;
- Coordinate the timing of your switch from an employer's health care plan to Medicare; and,
- Consider your health and life expectancy when developing a plan to provide financial security over the course of what could be many years of retirement.

The costs

It's important to understand the cost of Medicare, which is available beginning at age 65. While it's true that hospitalization coverage (Part A) is free for qualified retirees, you'll have to pay premiums for other elements of Medicare. Medical coverage for doctor's office visits and treatments (Part B) and prescription drug coverage (Part D) are the most common optional additions. Many retirees also purchase private Medicare Supplement Insurance, also known as Medigap, to cover copays, coinsurance, and deductibles, or a Medicare Advantage Plan, called Part C.

In 2022, the standard Part B premium is $$170.10 a month or higher, depending on your income. The cost of Part D coverage varies by region and your income, but the average is $43 per month in 2022.

Then there's out-of-pocket expenses to consider. For premium-free Medicare Part A, there's a $1,556 deductible per hospital stay (with at least 60 days between admissions), plus a substantial daily "coinsurance" charge if a stay exceeds 60 days. Part B medical coverage has a $233 annual deductible, plus a 20% copay for Medicare-approved charges for physician services and medical equipment. The annual deductible for Part D drug coverage can run as high as $480, and there are additional copays and coinsurance that vary according to the type of drug.

2022 Medicare costs at a glance	
Hospitalization insurance (Part A) premium	If you paid Medicare taxes for at least 30 quarters, you pay no premium for standard Part A insurance
Part A hospital inpatient deductible and coinsurance	• $1,556 deductible for each benefit period (each hospital stay occurring at least 60 days after previous stay) • Days 1-60: $0 coinsurance for each benefit period • Days 61-90: $389 coinsurance per day of each benefit period • Days 91 and beyond: at least $778 coinsurance per day and potentially all costs
Medical insurance (Part B) premium	Standard Part B premium amount is $170.10 per month, but may be higher depending on your income
Part B deductible and coinsurance	$233 deductible per year, after which you typically pay 20% of the Medicare-approved amount for most doctor services (including most services performed while you're a hospital inpatient), outpatient therapy, and durable medical equipment
Medicare Advantage Plan (Part C) premium	Varies by plan
Prescription drug coverage (Part D) premium	Varies by plan, and higher-income enrollees pay more. Average nationwide monthly premium for 2022 is $41[1]
Part D deductible, copay, and coinsurance	Standard deductible is up to $480; copay and coinsurance vary by plan

What it all adds up to can vary greatly from person to person and couple to couple, depending on a person's health and insurance options. You'll have to carefully consider your situation to come up with a good estimate for your retirement budget. Keep in mind that you'll also need to consider inflation, meaning these costs will most likely rise during the course of your retirement.

[1] Source: Medicare.gov

The timing

Your actual health care costs in retirement could be impacted significantly by two timing decisions:

1

When you choose to retire

2

When you choose to sign up for Medicare

Decision 1: When to retire

Perhaps you're tempted to retire early and begin collecting reduced Social Security benefits at age 62—many people are. But before you do, give some serious thought to how you'll pay for health care. You can't enroll in Medicare until age 65, so it's likely that a lot of your Social Security benefit would be eaten up by the cost of health insurance coverage that had been provided through your employer.

The average monthly cost of coverage for people who purchased insurance on the HealthCare.gov platform in 2021 was $590.[2] And that doesn't include deductibles and other out-of-pocket costs. An early retiree might be able to receive coverage through an employer's "retiree" plan or COBRA (the Consolidated Omnibus Budget Reconciliation Act), but the costs could be substantially above what he or she was paying when employed.

On the other hand, delaying Social Security benefits for as long as possible could be a smart strategy for securing additional income to meet expenses, including health care costs. That's because your monthly benefit increases 8% for every year you delay starting payments after your full retirement age, up until age 70, and the larger benefit amount lasts your entire lifetime. Full retirement age for Social Security purposes is between ages 66 and 67 if you were born between 1943 and 1959, and age 67 if you were born in 1960 or later.

[2] "Health Insurance Marketplaces 2021 Open Enrollment Report," Centers for Medicare & Medicaid Services, April 1, 2020, https://www.cms.gov/files/document/health-insurance-exchanges-2021-open-enrollment-report-final.pdf

Decision 2: When to sign up for Medicare

The decision of when to enroll in Medicare Parts A and B might seem like a no-brainer—at age 65, when you become eligible. In reality, you have a couple of choices to consider and a few pitfalls to watch out for.

The biggest consideration is whether you're still working at age 65 and covered by an employer's group health insurance plan. Remember, there's no premium for Medicare Part A, but the Part B monthly premium is $170.10 or more, depending on your income. So, if you prefer your employer's group plan, you can keep it and postpone signing up for Medicare Part B.

However, if your employer has 20 or fewer employees, you'll need to sign up for Medicare Parts A and B when you turn age 65 to avoid a possible penalty for late enrollment. Also, be aware that a retiree health care plan offered by your company or coverage under COBRA doesn't qualify as "primary" payer insurance, which means you could be subject to a penalty if you don't enroll in Medicare during your initial enrollment period.

The initial Medicare enrollment period is seven months—your birthday month and the three months before and after. If you're already collecting Social Security benefits when you turn age 65, you'll be enrolled automatically in Medicare.

If you're not already receiving Social Security benefits at age 65, you can continue to postpone enrollment in Medicare Part B and not incur a penalty for as long as you're covered by an employer's group health plan. When your coverage ends, you'll be able to sign up for Part B during an eight-month special enrollment period. Medicare is administered by the Social Security Administration, so you can sign up online or by calling or visiting your local Social Security office.

If you don't sign up for Part B when you're first eligible or within eight months after you lose group health coverage at work, you may have to pay a late enrollment penalty of 10% on your Part B premium for each 12-month period you delayed. And, the penalty is permanent. Similarly, if you do not have creditable drug coverage for more than 63 consecutive days, you may have to pay a late-enrollment penalty if you decide to get Medicare prescription drug coverage (Part D) at a later date.

Three common Medicare enrollment scenarios

1

You're receiving Social Security benefits when you turn age 65

→ Medicare Parts A and B enrollment is automatic

2

You continue working after you turn age 65 and are covered by a group health insurance plan at an employer with more than 20 employees

→ **Option 1:**
Contact Social Security to sign up for premium-free Medicare Part A coverage, declining Part B coverage until you retire

Option 2:
Do nothing initially, then contact Social Security two months before you retire to enroll in Medicare and avoid a lapse in coverage[3]

3

You continue working after you turn age 65 for a company with 20 or fewer employees

→ You need to sign up for Medicare Parts A and B when you turn age 65. Contact Social Security during your initial Medicare enrollment period

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[3] Do this even if you intend to enroll in an employer's "retiree" plan or pay for COBRA coverage.

Plan ahead

Estimating retirement health care costs and making decisions regarding Medicare coverage can be challenging. Do your homework by checking with your employer's benefits coordinator about your group coverage and researching information on your Medicare options at Medicare.gov.

Because of the cost of health care and the complexity of Medicare coverage, a knowledgeable financial professional can be an important resource for helping you avoid pitfalls and developing a retirement income plan that includes a solid strategy for covering your health care costs.

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