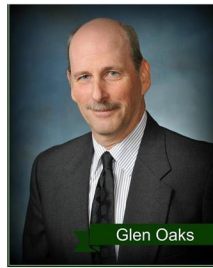


# HEALTHCARE COSTS THE TOP UNCERTAINTY FOR NEW AND SOON-TO-BE RETIREES



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If you've ever dealt with serious illness or have been a caregiver for family members, you already understand the importance of thinking ahead about healthcare costs. It's also top-of-mind for many Americans close to retirement age, according to a March survey—Retirement Reset—by the Alliance for Lifetime Income.

Healthcare costs are the No. 1 uncertainty for those aged 61–65 who are still employed, the survey found. Among the survey respondents, 53% believe they or a spouse or partner have at least a moderate chance of seeing high medical expenses in retirement, while 37% believe there's at least a moderate chance they'll need to provide care for someone.

These results aren't surprising, especially given the survey's timing early in the outbreak of COVID-19 cases in the U.S. Healthcare has of course been an important issue for Americans during the last several election cycles, with many candidates promoting various changes, including universal healthcare, to our current healthcare system.

## A KNOWN UNKNOWN: CATASTROPHIC ILLNESS AND LONG-TERM CARE

For Michael Harris, the Alliance's senior education advisor, a key challenge is preparing for highly unpredictable medical costs. "You could be 80 and healthy, and then bend over to pick up a stick and suddenly have an emergency," he says. "Overnight you could go from having manageable monthly healthcare expenses to spending thousands a month on medical treatments, long-term care, or assisted living."

None of us can truly know what our future healthcare needs will be, but not having a plan to cover these costs could deplete savings quickly. Though financial professionals differ in their

approach to this risk and uncertainty, Chris Hernandez, a financial planner at Strategic Capital in Austin, Texas, favors using annuities to help manage some costs of long-term care.

"Long-term care expenses can wipe out a client's funds pretty quickly," he says, so he tries to suggest some protection with annuities that can also pay for long-term care costs. "If the client doesn't need long-term care, they can spend the money in the annuity or leave it to their beneficiary."

There are other options to cover healthcare and long-term care costs, so it's best to work with your financial professional on the appropriate solution. Danielle Schultz, a financial planner in Evanston, Ill., supports the use of long-term care insurance, especially when people are in their early 50s, when the premiums are still reasonable.

"One idea to remember when planning is that as we age in retirement, we tend to shift from traveling and being active to having a more sedentary lifestyle," adds Matt Mondoux, an advisor at Blue Chip Partners in the Detroit area. "Funds we previously set aside for cruises and golfing eventually go toward healthcare."

## HEALTHCARE IS AN ESSENTIAL MONTHLY EXPENSE

Besides planning for unknown expenses, those entering their prime retirement years have several other monthly healthcare issues to consider. These include paying for:

- Healthcare costs if people retire before they're 65, which is when Medicare coverage can begin. "Most of the time, people haven't included that expense in their plan," Hernandez says. "Sometimes that changes their retirement date."

- Medicare premiums once they begin using Medicare.
- Premiums and out-of-pocket costs to cover gaps in Medicare coverage (Medigap policies offered by private companies).
- Dental and vision care services not covered by Medicare.

A new way to help make sure you can cover healthcare costs is to include them in your monthly retirement income planning. With this approach, you first develop a list of essential monthly expenses you'll need to cover in retirement. Besides monthly healthcare premiums and other predictable ongoing medical costs, these expenses could also include things like a mortgage, utilities, groceries, and transportation.

Once you've calculated those monthly expenses, the next step should be putting together a plan that covers these essential expenses with protected lifetime income such as Social Security, pensions, or annuities. Then, combine your estimated monthly payments from Social Security and, if you're lucky, a pension. If that amount is less than your estimated monthly expenses, you should consider filling that income gap with an annuity.

You can supplement this approach by having a "war chest" to pay for smaller, specific health care costs that your plans might not cover, Schultz suggests. This could cover items such as hearing aids, dental implants, and physical therapy beyond what's paid for by insurance. The amount an investor might want to set aside would vary greatly depending on whether the investor chooses a Medicare Advantage plan with dental and vision coverage.

Annuities are long-term investments designed for retirement purposes. The value of variable annuities is subject to market risk and will fluctuate. Product guarantees are subject to the claims-paying ability of the issuing insurance company.

Earnings, when withdrawn, are subject to federal and/or state income tax, including a 10% tax penalty for withdrawals before age 59½.

Some income guarantees offered with annuities take the form of optional riders and carry charges in addition to the fees and charges associated with annuity products.

There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Investments in annuity contracts may not be suitable for all investors.

The Alliance's Harris suggests planning for annual increases in health care costs that are above the inflation rate. Also consider what will happen to your regular household costs if you or a spouse requires extensive care. "If that person was handling mowing the lawn, for example, you might need to pay someone to do that now," he says.

## SECURING A HEALTHY RETIREMENT

Trying to plan for the unknown makes us all anxious. The good news is that according to the Alliance survey, people aged 61-65 have a positive outlook on their health in retirement. Among those already retired, 74% feel "content" or "excited" about their expected health during these years, compared with 70% for those still working. 26% of the retired survey respondents feel better about their health than they did while they were working, compared with only 9% who feel worse.

That bodes well for our overall happiness and opportunities in retirement.

Work with your financial professional to determine how protected lifetime income, such as an annuity, can help cover retirement healthcare and long-term care costs, and any other steps you should take in planning for retirement income. After all, feeling healthy is the first step in living the life you want during these years.

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