Impact of Health Care on Retirement

Will health issues force you to retire earlier or spend your nest egg quicker than you planned?

Nearly half of Americans retire sooner than they expected, most of them because of health issues or disability, according to the Employee Benefits Research Institute's 2015 Retirement Confidence Survey.

A couple, both age 65, retiring today will spend, according to Fidelity Investments' 2018 survey, approximately $280,000 in health care during their retirement years—and that doesn't include any assisted living or nursing care. That's up $5,000 since 2017. As employers continue to curb pension plans and health care coverage for retirees, individuals will shoulder a heavier financial burden for medical services.

Thanks to medical advances, many conditions once considered life threatening can be treated but may result in some level of permanent disability. A disability can increase your health care expenses in retirement beyond what you had planned for *and* prevent you from earning additional income to cover those expenses. Often considered a tool for the earning years, private disability insurance (purchased on your own), or group disability obtained through your employer, may have a place in your retirement risk management plan.

If you've already been diagnosed with a chronic condition – diabetes, heart disease, high blood pressure, osteoporosis – or suffered a disability, adjustments to your retirement savings and distribution estimates may be needed. You will need to check your budget and income structure to ensure enough available funds for related costs.

If you are unable to earn an income due to an injury or illness, you may qualify for Social Security Disability Insurance (SSDI) – a benefit provided through the Social Security program to individuals with a disability that forces them to stop working before their full retirement age. The requirements to qualify for Social Security disability benefits are strict, but if you think you or a loved one might qualify, it's well worth looking into and perhaps even submitting an application, which can be done at www.socialsecurity.gov.

Don't count on your employer to continue health care coverage for you after you retire. According to the 2018 Employee Benefits Research Institute Retirement Confidence Survey, 17 percent of workers are very confident in their ability to pay for medical expenses in retirement, and only 32 percent of retirees matched that same confidence level in retirement. Some employers will allow retirees to stay on their health care insurance as long as the retiree pays the full premium.

Most early retirees will need to secure private insurance to bridge the gap between employer plans and Medicare, which doesn't start until you're 65 (or 2 years after qualifying for SSDI.) The Consolidated Omnibus Budget Reconciliation Act, or COBRA, allows you to keep group coverage for 18 months but you will pay the full premium. When you're time's up, if you're not yet 65, you'll need to find private coverage.

Regardless of your health, it's important to maintain continuous coverage. A lapse in coverage could make you uninsurable if you have a health crisis between policies. When you end coverage with one insurer, be sure to get a certificate of insurance to document that you had been insured before. Having that document can make it easier to get coverage, particularly if you have a condition that existed while you were still insured.

If you're still working, you may want to consider funding a Health Savings Account (HSA). Anyone younger than 65 can open an HSA after purchasing a qualified high-deductible health insurance plan. Unlike the flexible spending accounts some employers offer with group insurance, HSA contributions and gains can be rolled from year to year – there's no "use it or lose it" requirement – and you retain ownership of the funds even if you terminate employment. Because of the age limit, you should look at an HSA option far in advance of your retirement.

Taking care of yourself can make a big difference in prolonging your working years until you choose to retire and keeping health care costs at bay during retirement years. It's never too late to start taking care of your mind and body by eating right, exercising and getting regular checkups. As a bonus, you'll get more enjoyment out of your retirement years!

Written by Securities America for distribution by Arlon Enmeier, CFP®. Securities America and its advisors do not provide tax advice. Please consult with your tax professional regarding your individual tax situation.