# Age-focused strategies for retirement health care costs

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## Key takeaways

- Addressing generational health care needs, from baby boomers to millennials, helps financial professionals build trust and stand out
- Planning for rising health care costs is essential for a secure retirement and should be integrated into comprehensive financial plans
- Medicare requires careful decision-making between Original Medicare and Medicare Advantage, each with unique costs and coverages
- Health savings accounts (HSAs) offer a tax-advantaged way for younger workers to save for future health care expenses

Today's financial professionals may very well spend the bulk of their time working with members of the baby boomer generation. This makes a lot of sense considering the widely reported statistic over the past few years that every day more than 10,000 boomers hit the traditional retirement age of 65 and will continue to do so for the remainder of this decade.[1] Yet baby boomers are not the only demographic cohort that matters. Another highly analyzed group in American society today is the millennial generation, many of whom are the children of baby boomers. Although it may be hard to believe, the oldest of the millennial generation are already in their early 40s! This means that they are at an age where higher numbers of them are actively seeking the help of financial professionals. Although the current financial concerns of members of these very distinct generations may differ, there is one concern that they share: paying for the cost of current and future health care needs. And let's not forget the group in between: Generation X. Many of them are now caring for aging parents and could benefit from guidance in planning for their own health care during their older years.

The focus on health care costs, across all generations, presents both challenges and opportunities for today's financial professionals. The challenge is learning what you need to know about the health care delivery system in the United States and how to manage its ever-increasing costs, then incorporating that knowledge into your clients' financial plans. After all, Nationwide's most recent Health Care Costs in Retirement Survey found that the vast majority of respondents (83%) agreed that health care costs should be a part of personal financial planning.[2]

Yet that challenge also creates an opportunity for those financial professionals who are able to successfully integrate health care costs into a holistic financial plan for their clients. For example, almost 70% of respondents in the same Health Care Costs in Retirement Survey indicated that they would be likely to switch to a new financial professional if their existing advisor could not show them how to navigate Medicare choices.[2]

Nationwide® is here to help you meet this challenge and take advantage of this opportunity so that you are one of those financial professionals who gains appreciative clients because of your ability to help them plan for and manage their health care costs, now and in the future. To do that, let's look at a couple of examples from this millennial author's own life experience to help learn a few things about how to pay for health care in retirement.

## Helping Mom and Dad with Medicare

As a first-generation college student who holds a law degree and now works in the financial services industry, I sometimes provide legal and financial suggestions to my parents. And although I am personally years away from Medicare eligibility, having a general working knowledge of Medicare proved immensely valuable to me as I helped guide my parents through Medicare enrollment a few years ago. Many other Gen Xers and millennials may be facing a similar circumstance in helping their own boomer parents make Medicare decisions. So it follows that both older and younger individuals may benefit from understanding some Medicare basics.

**Medicare coverage:**

Medicare is a federally run insurance program, but it is not one size fits all. There are choices to make. The first among them is which of two main paths to follow:

<table>
<tr><th>Original Medicare</th><th>Medicare Advantage</th></tr>
<tr><td>Original Medicare, composed of Parts A (hospitalization) and B (outpatient services), is provided by the federal government and can be supplemented by private insurers who provide:<br>• Medigap plans that cover out-of-pocket costs incurred under Original Medicare, and<br>• Medicare Part D prescription drug coverage</td><td>Medicare Advantage (also called Medicare Part C), provided by private insurers approved by Medicare.<br>Medicare Advantage plans replace Original Medicare and supplemental Medigap plans.<br>Most Medicare Advantage plans will also include prescription drug coverage as well.</td></tr>
<tr><td colspan="2">or</td></tr>
<tr><td colspan="2">Within these two mini paths, there are still other choices to make:</td></tr>
<tr><td>• Whether to add a Medigap plan, and if so, which one? There are several to choose from.<br>• Whether to add a Part D prescription drug plan, and if so, which one? Formularies vary and may change from year to year.<br>Although Medigap and Part D plans are technically optional, those who choose Original Medicare are almost always going to need both of these plans.</td><td>Which plan? There are many on the market. Costs and coverage vary among plans based on a number of factors, such as the type of plan chosen (e.g., HMO vs. PPO), geographic scope of the network, the cost-sharing formula, the annual deductible, types of prescription drugs that are covered, and what other services are offered (e.g., vision and dental).</td></tr>
</table>

Also, it is important when working with married couples to point out that unlike traditional employer-provided coverage, in which spousal coverage is often included as part of a family plan, Medicare plans are for individuals only. So each spouse should choose the coverage that works best for their own medical needs.

**Coverage limitations:**

Medicare will not cover everything. Everyone should therefore be aware of a few important categories of medical services that Medicare will not cover, the most important of which (for most people) is prescription drugs. Individuals who have Original Medicare who also need prescription drug coverage will need to buy a supplemental Medicare Part D prescription drug plan from a private insurance company. Those who buy a Medicare Advantage Plan from a private insurer must make sure the particular plan they choose will cover the prescription drugs that they need.

In addition, Original Medicare does not generally cover most dental, vision or hearing care, although some Medicare Advantage plans do. Medicare also does not generally cover most alternative medicine or care received outside of the United States.

**Clients need to know: Medicare does not cover long-term care.**

### Medicare costs

One very critical fact to understand is that Medicare is not free. There are premiums, deductibles, co-payments and co-insurance that still need to be paid. Those expenses will last throughout retirement and may increase with age and the need for more frequent and more comprehensive care. Planning for how medical expenses will be covered is critical.

## WHO IS IRMAA?

IRMAA stands for "income-related monthly adjustment amount." It acts as a Medicare surcharge and is added to the base premium for Medicare Parts B and D. The IRMAA surcharge is calculated each year and is based on a retiree's modified adjusted gross income (MAGI) from two years prior. This means that the applicability and amount of the surcharge may change from year to year, based on income that must be included in an individual's MAGI. The surcharges begin to apply once individuals reach a certain MAGI threshold and then increase even more as their retirement income grows.

### How premiums are paid

For those enrolled in Medicare Part B, the premium is automatically deducted from their monthly Social Security benefit. But for those not yet collecting Social Security benefits, Medicare will bill for premiums quarterly, which must then be paid either electronically or by mail.

Medicare Part A, which covers hospitalization, is free for anyone who is at least age 65 and otherwise eligible for Social Security benefits, even if they have not claimed those benefits yet.

For Medicare Advantage plans (i.e., Medicare Part C) or prescription drug coverage (i.e., Part D), individuals have the option to have the premium deducted from their Social Security benefit or to pay the plan provider directly.

### Decisions and solutions

After explaining to my parents some of the fundamental aspects of Medicare, I was able to help them make some difficult decisions and find solutions to address some of their long-term concerns. I'll share some of these decisions and solutions in the next sections — not because they are unusual and unique, but because of how typical they are for all baby boomers entering retirement.

**Read a white paper specifically about Medicare.**

## Does health influence Social Security strategy?

Although the full retirement age for Social Security is now 67, individuals may choose to receive Social Security benefits as early as age 62. However, for those who choose to start drawing benefits early, those benefits will be reduced. On the other hand, those who delay the start of Social Security beyond their full retirement age (up to age 70) are rewarded with an even higher Social Security amount. As a general rule, it is best to delay the start of Social Security if financially possible, particularly for those who are healthy and expect to live into their 80s or beyond.

Nonetheless, after considering his health and crunching some numbers, my dad chose to take Social Security benefits early. As a fifth-generation self-employed farmer, his benefit was based on his self-employment income from his work on the farm, which varied greatly based on the farm's profitability each year. The decision was to use his modest Social Security benefit to offset private health insurance premiums as a bridge to Medicare, because my mom's employer-provided coverage did not extend to spouses. My mom, meanwhile, continued working full time beyond her Social Security full retirement age, not stopping until the COVID-19 crisis closed her work for a few months in 2020, and she decided not to return when her workplace reopened.

**For more information about Social Security and to access a tool that helps point to an optimal filing strategy, visit nationwide.com/SimplifySocialSecurity.**

When to start drawing Social Security benefits is a personal choice. Because my mom's Social Security benefit was larger than my dad's, and because of the cost and limited availability of health insurance coverage for my dad, the decision for my dad to start early and my mom to delay starting hers made sense for them. However, it did cause much hand-wringing and second-guessing — mostly on my part! Thankfully, Nationwide has resources to help clients analyze such factors and think through this decision.

## When to enroll in Medicare

The majority of working Americans today will become eligible for Medicare at age 65. However, as I mentioned previously, full retirement age for Social Security is now 67. In addition, more and more people, whether by choice or out of necessity, will continue to work full time after age 65. For those who do continue to work and have continued access to employer-provided health care coverage, there is an important decision to make.

Do they enroll in Medicare and drop their employer-provided coverage? Do they keep their employer-provided coverage and delay Medicare? Do they enroll in Medicare and also keep their employer-provided coverage? There are a number of factors to weigh when making this decision:

- Whether the individual works for an employer with fewer than 20 employees
- Whether the employer-provided coverage also covers a younger spouse who is not yet age 65 (i.e., not Medicare-eligible)
- How healthy is the individual
- Whether the individual will have to change health care providers if they switch from their employer-provided plan to Medicare
- Whether the Part B premium + Medigap + Part D (or a Medicare Advantage plan) will cost more or less than the employer-provided coverage
- Whether the individual wants to continue contributing to a health savings account (HSA)

Even though my mom worked full time until after she turned 66, she opted to enroll in Medicare during her initial enrollment period right before she turned 65, because her employer's health insurance coverage was less than ideal. Because both my parents rarely leave the small rural county where they live, each enrolled in a Medicare Advantage plan with a network of providers limited to their geographic area — which allowed them to find a plan that is affordable for them. If I can persuade them to take any vacations or trips out of state (or even abroad), I will make sure they are covered by travel insurance in the event they become ill outside of their Medicare Advantage network.

**For more information about Medicare and to access a tool that helps clients make their Medicare choices, visit nationwide.com/SimplifyMedicare.**

## Aging at home

As I just mentioned, my parents are very tied to the farming community in which they have lived their entire lives. This is different from many retirees who dream of traveling in retirement, becoming snowbirds or relocating to a warmer climate altogether. However, my parents are like other retirees in their shared fear of spending their final days in a nursing home. Thankfully, my mom is both a worrier and a planner, and she has consequently pushed my dad at various points over the past decade or more to make detailed plans so that they can age in place for their golden years.

The first thing they did, more than a decade ago, was purchase long-term care (LTC) insurance. This has helped my parents' peace of mind immensely, as they no longer worry about handing over their assets, potentially including the family farm itself, to pay for a nursing home or other end-of-life care. Once the LTC policy was in place, my parents focused on making some upgrades and improvements to the family farmhouse, thinking specifically about a few design features that would ensure convenience and maneuverability when/if their mobility declines.

Finally, because my mom grew up hearing stories about the loss of a family farm during the Great Depression, and because of her personal experience watching her 401(k) balance plunge at various points during her working career, such as after the Enron scandal in 2001 and the global financial crisis of 2007-2009, she was very fearful of losing her retirement savings. The market volatility of 2020, brought about by COVID-19 and the presidential election, also weighed heavily on her mind. These factors ultimately led her to the decision to roll over her 401(k) assets into an IRA and then use almost half of the IRA balance to purchase a qualified deferred annuity. My parents plan to delay the start of that annuity until my mom turns 73 (the required beginning date).

Choosing the right time to start drawing Social Security benefits, choosing the right Medicare plan at the right time, and determining how to fund your retirement and end-of-life care are all critical decisions that people must make as they near retirement. Nationwide Retirement Solutions has resources available to financial professionals to help their clients in these important decisions. Perhaps more importantly, Nationwide has products and solutions to help people live out their retirement years, whether that be by aging in place or traveling the world.

## What about younger clients?

Helping guide my parents through this holistic process of planning for their retirement and future health care needs made me think about my own retirement and future financial and physical well-being. As a worrier and planner, like my mom, I am already planning for my health care costs in retirement by focusing on specific aspects of wellness.

### Physical wellness

They say an ounce of prevention is worth a pound of cure. With that in mind, I try to maintain a healthful diet and to exercise regularly. Thankfully, the wellness industry is growing at a fast pace and there are many health-focused wellness programs available to the general public. More and more employers are also incorporating robust wellness programs to help their employees maintain a healthy lifestyle. Many of these initiatives are free to employees. An example may be an employee assistance program (known by many as an EAP), or a smoking-cessation program or a meeting with a dietitian paid for by one's employer-provided health insurance. If your clients have access to any of these programs through their employers, encourage them to participate.

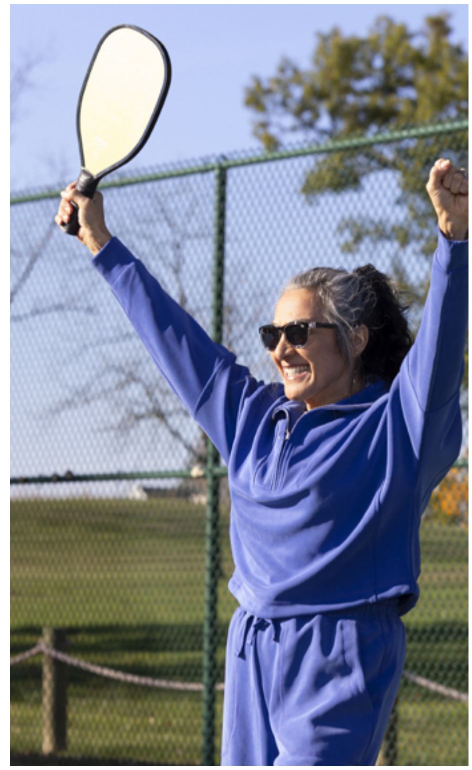
Another important thing to remember is that the Affordable Care Act (ACA) requires health plans to cover many preventive care services at no cost.[3] This means that the service provider will not charge a co-payment or co-insurance, even if an individual has not met their yearly deductible. These preventive care services include regular screenings for things such as cholesterol, blood pressure, depression and certain cancers. Vaccines are usually covered, too.

Many people are not aware of — or simply choose not to take advantage of — these free preventive care services from their health plans. Identifying and treating minor issues and ailments early saves people from more costly and physically intrusive treatments later in life. I take time to understand my health insurance coverage and make sure I seek out all of the free preventive services and screenings available to me because the longer I stay healthy, the less I will spend on medical care now and in the future.

**Financial wellness**

Although when most people hear the word "wellness," they may think only of physical wellness, financial wellness is just as critical. Aside from the general financial advice that all young professionals receive about saving for a rainy day and saving for retirement, a more specific piece of advice for many younger workers today is to earmark savings specifically for the costs of health care in retirement. There is no better way to do that than with a health savings account, generally known as an HSA.

An HSA is a tax-exempt trust or custodial account set up with a qualified HSA trustee to pay or reimburse an individual for qualified medical expenses.[4] Qualified medical expenses include many things but predominantly are the costs of diagnosis, cure, mitigation, treatment or prevention of disease.[5] Transportation costs essential to medical care may also be qualified medical expenses. Also included are amounts paid for qualified long-term care services and limited amounts paid for qualified long-term care insurance contracts.[5] Many medical-, prescription drug-, dental- and vision-related expenses are safely considered to be qualified medical expenses.



Money contributed to an HSA may be used immediately, or it may be invested and saved until any point in the future. Unlike employer-provided flexible spending accounts (FSAs), there is no "use it or lose it" rule.

**Money saved and invested in an HSA receives a triple tax benefit:**

1. Money contributed to the HSA (up to an annually adjusted limit) is not subject to current federal (and, in most cases, state) income tax. And if it is contributed through payroll withholding, it will also not be subject to FICA taxes.
2. If money in the HSA is invested (for instance, in a mutual fund), the earnings grow tax free.
3. So long as the money is distributed from the HSA to pay for or reimburse a qualified medical expense, that distribution (of basis and earnings) is also tax free.

**It is this triple tax benefit that makes HSAs such a wonderful tool for younger workers to set aside money to grow on a tax-favored basis.**

Perhaps the best attribute of an HSA, though, is that because it is intended to help people save specifically for health care, it is a hybrid tool that helps build both physical and financial wellness.

## Conclusion

As a teenager in the late 1990's, I was old enough to understand and be impacted by the stress and worry related to our family's lack of comprehensive health coverage. Unfortunately, neither of my parents had access to employer-provided health coverage during that time. And because of back injuries my dad sustained while farming, the health insurance my parents were able to purchase was extremely expensive and often didn't even cover my dad's pre-existing conditions. During this same period, the cost of medical care began to rise at a pace that far exceeded inflation — and wages.

Although the ACA did address the coverage issue by requiring coverage of pre-existing conditions and penalizing large employers who did not provide comprehensive health care to full-time employees, it did not solve the problem of rising medical costs. In fact, the cost for a family of four with a preferred provider organization (PPO) health plan has reached $32,066 a year![6] This large price tag is a significant financial burden for most families today. And health care costs pose similar financial burdens for retirees today. For example, a 65-year-old male needs $109,000 in savings and a 65-year-old female needs $133,000 in savings for a 50% chance of having enough to cover medical premiums and median prescription drug expenses in retirement. For a 90% chance of having enough savings, a man needs $191,000 and a woman needs $226,000 to cover these costs.[7]

Numbers such as these make the case so clearly. Planning for health care costs that may occur before and during retirement is a critical component of comprehensive financial planning. Financial professionals who understand its importance — and also understand enough about the topic of health care to help guide their clients through these choices — will differentiate themselves from others in the financial services industry and prove their worth by being a valuable and appreciated resource for their clients.

The Nationwide Retirement Institute® has a number of tools and resources, as well as the consultative expertise, to help financial professionals serve their clients regarding the topic of health care. For example, we offer a Health Care/Long-Term Care Cost Assessment Fact Finder that generates a client-specific report anticipating their health care costs in retirement. Users can also create a "what-if" scenario to compare projected lifetime health care costs against their primary scenario. The report can help you have important conversations about saving specifically for health care costs.

Find the Fact Finder at nationwide.com/HCcosts

Explore more resources at nationwide.com/SimplifyHealthCareCosts

For additional consultation, contact the Nationwide Retirement Institute Planning Team at **1-877-245-0763**.

Book a consultation online.
**Explore available topics here**.

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[2] The Nationwide Retirement Institute 2024 Health Care Costs in Retirement Survey (August 2024).

[3] "How the Affordable Care Act Improved Access to Preventive Health Services," https://www.americanprogress.org/article/how-the-affordable-care-act-improved-access-to-preventive-health-services (July 10, 2024)

[4] "Health Savings Accounts and Other Tax-Favored Health Plans," 2024 IRS Publication 969 (October 28, 2024).

[5] Internal Revenue Code 213(d)(1).

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[7] "Projected Savings Medicare Beneficiaries Need for Health Expenses Continued to Rise in 2024," Jake Spiegel and Paul Fronstin, https://www.ebri.org/content/projected-savings-medicare-beneficiaries-need-for-health-expenses-continued-to-rise-in-2024 (March 6, 2025).



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