Conversation Guide

6 Ways to Start the Discussion on Paying for Health Care in Retirement

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Editor

Many plans for retirement don't adequately cover how to manage health care expenses. Here are six ways to approach the topic.

Health care can be a significant and sometimes surprising expense for retirees. Though health care costs fluctuate, it's estimated that the average 65-year-old couple will spend $11,400 annually out of pocket, and that figure increases as the couple ages.[1]

When financial professionals and their clients consider how to pay for health care in retirement, they often rely on current cost of care averages and any pertinent information from their conversations, such as family health history. This strategic approach can help retirees better prepare to financially manage their health care expenses in the future. Research indicates that people who work with a financial professional were more than twice as confident they would have enough money for health care expenses in retirement compared to those who do not work with a financial professional.[2]

The six conversation starters explored in the following pages can help financial professionals and their clients open and strengthen the lines of communication about expectations for future health care expenses.

[1] Taking control of health care in retirement. RBC Wealth Management, 2021.

[2] Boomer Expectations for Retirement 2019. Insured Retirement Institute, April 8, 2019.

Conversation 1

Open the door to discussion

The reasons why people may not have a plan for covering health care costs in retirement can vary. Some simply believe they will rely on Medicare, while a small percentage don't consider it to be a priority.[2] And one of the challenges to developing a plan is that health care can be a difficult topic for financial professionals and clients to discuss in detail, as health care and aging may seem personal – but the financial implications of care as one ages can be critical to planning for retirement.

To overcome these challenges, financial professionals and their clients may consider opening the conversation by discussing retirement goals and then connecting them to health care costs. For example, someone who is retiring early may want to consider how they will secure health insurance and what it may cost until they're eligible for Medicare. Leading with goals may be a more comfortable way of entering the conversation about health care and its relationship to money and planning.

Another important element of preliminary discussions is talking about any preconceived expectations about how health care will be paid for – especially those that could be rooted in incorrect assumptions. For instance, one common misconception is that all health care expenses in retirement are covered in full by Medicare.[2] The reality, however, is that Medicare has premiums and deductible costs that need to be paid out of pocket. Other out-of-pocket expenses could include additional personal care costs such as hearing and dental care as someone ages.[3]

Establishing expectations around health care and how to pay for it can help lay the groundwork for in-depth conversations about financial strategies for the future.

Conversation Goals:

- Address any potential misconceptions about health care in retirement
- Review retirement goals and how they relate to health care
- Discuss the role of Medicare, including the cost of premiums, how much it covers, and what types of health care expenses it doesn't cover

63% of people don't include health care expenses in their plans for retirement because they are unsure of the associated costs.[2]

[3] What's not covered by Part A & Part B? Medicare.gov, as of April 2023.

Conversation 2

Build and inform a team

One of the key roles a financial professional can play is facilitating key meetings about clients' plans for retirement. These meetings can help clients make sure their family members or trusted contacts are informed of their future plans. When it comes to health care, these conversations can be critical, especially if one or more family members may play a larger role in providing care for their loved one, perhaps because they live closer to the individual. Setting up a family meeting can help family members understand their loved one's goals, plans for health care, and financial situation.

Along with family members or trusted contacts, consider whether an estate planning attorney should be part of any discussions about health care to assist with legal directives or setting up a financial power of attorney, which is someone who can manage finances if needed. The financial power of attorney may not need to be involved in every conversation, but bringing them into broad discussions can help them understand what's expected of them and learn different aspects of the client's finances and goals.

Conversation Goals:

- Keep family members informed of important decisions related to health care goals and strategies
- Review whether key documents, such as a financial power of attorney, have been set up in the event of a health concern
- Determine what role family members or loved ones may play when additional care is needed

Conversation 3

Explore the cost of future in-home or community care

Seventy percent of today's 65-year-olds are likely to require a higher level of care as they get older, with 1 in 5 people projected to need care for more than 5 years.[4] That type of care is typically not covered by Medicare, which makes planning ahead for potential health care needs particularly important.

Discussions around health care planning can include some of the following questions:

- Where do you plan to live and receive care – at home, in a community, or other residential setting?
- Will a family member or trusted contact help provide care or manage finances? If so, will financial support be considered for that caregiver?
- Are home modifications necessary in order to age comfortably at home?

Even though these scenarios may be decades away, starting the planning process sooner rather than later is important because there are typically significant out-of-pocket costs associated with this type of care.

National health care spending is expected to grow at an average annual rate of 5.1% between 2021 and 2030, ultimately reaching $6.8 trillion in 2030.[5]

Reviewing different scenarios and accounting for projected cost increases in the health care industry may help both financial professionals and clients feel more confident about the path they're choosing.

Conversation Goals:

- Review desires and options for future care, such as at home or in a community setting
- Review the current average costs for the preferred care setting

Current Estimated Cost by Living Arrangement

Living Arrangement	Annual Cost	Other Considerations
Continuing care retirement community	Varies widely depending on the community, but average annual cost is $42,660[6]	The average entry fee is $402,000, but the range varies and some communities have entry fees of more than $2 million[6]
Nursing home	Average national cost is over $108,000 per year for a private room[7]	Nursing home costs are projected to increase 5% each year until at least 2030[8]
Home care	Based on the services received; average national cost is over $62,000 per year for 44 hours of work per week[7]	Additional costs, such as updating the home to make it more accessible, may be incurred

[4] How Much Care Will You Need? LongTermCare.gov, February 18, 2020.

[5] NHE Fact Sheet. Centers for Medicare and Medicaid Services, February 17, 2023.

[6] How Continuing Care Retirement Communities Work. AARP, January 27, 2022.

[7] Cost of Care Survey. Genworth Financial, conducted by CareScout®, November 2021.

[8] National Health Expenditure Data: Projected. Centers for Medicare & Medicaid Services, April 27, 2022.

Conversation 4

Discuss how lifestyle can impact health and finances

While someone may not be able to control the cost of a visit to the hospital or an MRI test, there are ways to potentially reduce the cost of health care in retirement. A number of nonmedical conditions called social determinants of health have a major impact on people's health. These five factors are:[9]

- Health Care Access and Quality
- Education Access and Quality
- Social and Community Context
- Economic Stability
- Neighborhood and Built Environment

Social determinants impact more than just health, but finances as well. Researchers have found, that people who suffer from social isolation have a 68% increased risk of hospitalization, bringing an additional round of health care expenses.[10] Therefore, being part of a community or maintaining regular interactions with friends may benefit retirees' health and finances.

With that in mind, financial professionals may want to discuss with their clients what their preferred retirement lifestyle may be. This should include how often they receive preventive care, where they live, and how active they plan on being as it relates to these five social determinants. Then consider whether small changes may benefit their health or finances. For example, what impact would living close to a specialized medical facility have?

Living in proximity to medical facilities may improve access to health care, but it could also result in additional housing expenses if the cost of living is higher in that location. Additionally, choosing a different place to live could move someone further away from their family or community.

Making decisions that balance financial considerations and personal preferences with a potential impact on health play an important role in how someone plans for retirement.

Conversation Goals:

- Understand factors within your control, such as where you live, that may impact health
- Review the financial impact of different lifestyle scenarios, such as living closer to a specialized medical facility

[9] Social Determinants of Health. Office of Disease Prevention and Health Promotion, as of June 2023.

[10] Loneliness and Social Isolation Linked to Serious Health Conditions. Centers for Disease Control and Prevention, April 29, 2021.

Conversation 5

Determine existing health and family history

Transparency is important to developing an accurate expectation around what future health care may cost. Financial professionals and their clients can start discussions about health care by talking about any family history of chronic conditions, as they can have a significant impact on the amount needed for health care in retirement.

Four in 5 Medicare recipients over age 65 have multiple chronic conditions, but early detection and preventive care have been found to reduce treatment costs.[11] A 2018 study found that the early diagnosis of Alzheimer's could save patients $64,000, or about 15% of the total costs associated with the disease.[12] Even still, annual health care costs for people with certain chronic conditions can reach nearly $30,000 per year, depending on the condition, so understanding these potential costs early can help in the planning process.[13]

This discussion can help set expectations of what a client's health care costs may be compared to the $662,000 national average lifetime costs for a healthy 65-year-old couple.[14] Those who might have higher expenses may want to discuss with their financial professionals whether an adjustment to their savings or investing strategy should be considered, or if additional sources of guaranteed income from an annuity would help provide consistent funding for medical expenses.

Conversation Goals:

- Openly discuss current health and family history
- Consider impact of chronic diseases on cost of care

[11] Clinical Practice Guidelines & Resources. Multiple Chronic Conditions Resource Center, as of April 2023.

[12] New Alzheimer's Association Report Reveals Sharp Increases in Alzheimer's Prevalence, Deaths, Cost of Care. Alzheimer's Association, May 30, 2018.

[13] A Systematic Review of Medical Costs Associated with Heart Failure in the USA (2014–2020). PharmacoEconomics, August 19, 2020.

[14] The Long-Term Impact of Short-Term Inflation. HealthView Services, March 3, 2022.

Conversation 6

Identify income sources

Being able to understand the different expenses associated with health care – from insurance premiums to care related to aging – may help both financial professionals and their clients feel more comfortable about developing a strategy around the sources of income to help cover those costs. Consider each of the topics below for discussion.

Guaranteed income: Only 23% of baby boomers between the ages of 56 and 61 expect to receive a private pension, so the majority of retirees will receive most of their guaranteed income from Social Security benefits.[2] An annuity may be one option to provide additional lifetime income that can help increase retirees' confidence in meeting their goals in retirement. Fifty-one percent of annuity owners were optimistic they would have enough money for health care expenses, compared to 25% of people who did not own one.[2]

Savings and investments: Financial professionals and clients can review investment strategies within retirement accounts to determine if they have the potential to create enough savings to cover health care expenses in retirement. Health savings accounts (HSAs) can offer significant tax benefits as contributions can be made on a tax-deductible basis for those who qualify, and assets grow tax-free. HSAs also have the added benefit that money in them can typically be used tax-free for qualified medical expenses. Only 8% of baby boomers are currently funding an HSA,[2] so financial professionals and their clients may want to discuss if the client is eligible to fund an HSA, either on a regular or catch-up basis. Eligibility is based on enrollment in a high-deductible health insurance plan and other factors.

Other income sources: What does retirement look like, and is working longer something that's being considered? Whether full- or part-time, continuing to work could provide opportunities to:

- Save more for retirement
- Contribute to an HSA
- Delay claiming Social Security to increase the monthly benefit

If clients plan to work longer as part of their strategy, there are also health considerations to discuss, including whether someone's health will allow them to work longer and how continued engagement with important tasks could help improve mental health.[15]

Conversation Goals:

- Review how current income sources, such as Social Security and retirement savings, could be used to pay for health care expenses
- Discuss additional ways to fund health care expenses, such as an annuity
- Identify any gaps between expected income and projected expenses

[15] Can physical or cognitive activity prevent dementia? Harvard Health Publishing, September 16, 2021.

Include health care in your conversations about savings strategies for retirement

It's difficult to predict how someone's health may change over the years and how it may impact their health care needs during retirement. As a result, it's no surprise that Americans often cite health care expenses as a top financial concern.[16] Starting conversations about health care allows financial professionals and their clients to take a proactive approach to preparing for these costs.

[16] Americans' Financial Worries Tick Up in Past Year. Gallup, May 9, 2022.

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