Take control of your retirement health care costs

Remember to include health care costs, and a strategy to pay for them, as you invest and plan for retirement.

For many retirees, the years after work come with the comfort of knowing certain major expenses are gone or greatly reduced: Children might be grown and supporting themselves; a mortgage might be paid off or close to it; and work expenses such as commuting costs no longer exist. Yet, one expense—health care costs—will likely increase and can be a source of concern and confusion. With adequate planning, however, you can take control of retirement health care expenses and make sure you receive the services you need efficiently and affordably.

What follows is a road map for retirement health care costs that you can use to map out a broad strategy. You and your financial advisor can fill in details over time, as your overall retirement planning conversations progress.

1. Put costs in perspective

When viewed as an annual budget item, health care costs feel a lot more manageable. Your costs will vary based on your overall health risk, where you live, whether you qualify for any subsidies, and other factors; but just for some context: The median annual health care expenses for a 65-year-old woman were $5,600 in 2023, according to the Mercer-Vanguard health care cost model. With some intentional budgeting, you can make it work.

$5,600/year

Median annual health care cost for a 65-year-old woman, including premiums and out-of-pocket medical, dental, and vision costs for Original Medicare with Supplement Plan G.

Source: Mercer-Vanguard health care cost model, 2023.

2. Plan for how you'll pay

If you're retiring before you become eligible for Medicare (age 65), you may need to choose a health insurance option to replace employer-sponsored health insurance. Your current health status, income, and other factors will influence what insurance you qualify for and how much you will have to pay (for example, annual health care costs vary widely by your health risk category). Some possibilities to consider:

- **Affordable Care Act plans**
- **Private health insurance**
- **Coverage through a partner's employer**
- **Employer-sponsored retiree health benefits**
- **Moving to a lower-cost location**

Whether or not you've already enrolled in Medicare, your main health care expenses will include insurance premiums and out-of-pocket costs. To prepare, you can take inventory of your income sources and calculate how much they can contribute toward paying your health care costs. Some possible sources of income:

- **Part-time job earnings**
- **Proceeds from selling portfolio assets**
- **Pension, dividend, or rental income**
- **Reimbursement from a health savings account**
- **Social Security income, disability benefits, etc.**

3. Make the most of Medicare

Reduce your costs where you have control. For example, from the time you and possibly your partner each turn 62, it's smart to closely monitor your income and see if it makes sense to reduce your modified adjusted gross income (MAGI), as reported to the IRS. That's because when you become eligible for Medicare on your 65th birthday, the program uses your tax return's MAGI from two years earlier to determine whether you're subject to a surcharge.* An advisor may be able to help you find ways to reduce your adjusted gross income—to avoid that increase in your monthly premiums—without cutting back on your lifestyle.

Apply for Medicare in a timely manner. Before the month you turn 65, be sure to apply for Medicare to avoid permanent pennalties that amount to higher monthly premiums. If you or a spouse are still employed and covered through a creditable health insurance and drug prescription plan, you may be able to delay signing up for Medicare. An advisor may be able to help you figure out the right medical and prescription drug coverage options for your situation.

Review coverage annually. After you're enrolled in Medicare, be sure to review your coverage each year during the open enrollment period of October 15 to December 7—as your needs may change and the rules and plans can change.

The bottom line

Health care costs are highly personalized. Many factors go into determining them, and it's critical to review your coverage each year and as your circumstances change. Whether they are fluctuations in income or life events, changes in your situation can have a significant impact on what you pay for health care. Your financial advisor can help you navigate those changes so that vital health care coverage fits in seamlessly with your overall retirement plan.

* This surcharge is known as the income-related monthly adjustment amount (IRMAA) and in 2024 ranges from $69.90 for Part B and $12.90 for Part D per month for an individual making over $103,000 ($206,000 for joint filers) to $419.30 for Part B and $81.00 for Part D per month for individuals earning over $500,000 ($750,000 for joint filers).

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