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FINANCIAL VIEWPOINT

A MESSAGE FROM SHARONVIEW FINANCIAL SERVICES

Medicare Options During Retirement

Medicare is available to virtually all U.S. citizens and legal residents 65 years of age and over who have previously worked and paid U.S. taxes or who are/were married to someone who did. And while this opens a host of healthcare coverage options, there are important considerations to help you make the best decision for your personal circumstances.

Medicare overview

As the largest health insurance program in the United States, Medicare is available when you turn 65 if you are eligible for Social Security or Railroad Retirement Board benefits, or if you've paid Medicare taxes while working in a government job. Medicare coverage is available in various parts:

Medicare Parts A and B are referred to as Original Medicare

Part A pays for hospital stays and follow-up costs associated with those stays. It also covers various outpatient medical services, such as short-term skilled nursing facilities, physical therapy, and some home healthcare services, including hospice care.

Part B pays for doctor visits and other medical care administered on an outpatient basis. It may also include the costs of medical equipment/devices and tests. You must sign up for Part B when you turn 65 or else face penalties if you sign up for it later.

If you elect Original Medicare (Parts A and B), you should still expect to pay out-of-pocket costs, including copayments and deductibles. Additionally, prescription drugs, vision care, dental care, and hearing services are not covered by Original Medicare.

To address out-of-pocket costs and those elements that are not covered by Original Medicare, you can purchase Medicare supplement insurance and a standalone Medicare Part D plan that helps pay for prescription drugs.

Part C (also called Medicare Advantage) is an option offered by private insurance companies. This generally provides all of the coverage in Original Medicare plus Part D prescription drug coverage and additional benefits (dental, vision, and hearing services). However, this type of plan may restrict your choice of medical providers and treatment options.

Part D is standalone prescription drug insurance. Most Part D plans require that you pay a premium. You must sign up for this at age 65 or else be subject to penalties if you sign up for it later.

Premiums for Parts C and D depend on your income and benefits selected. Low end pricing starts at around $100 per month for each, and can go up to $600 per month for high-income individuals.

To cover out-of-pocket deductibles and copayments, you can also sign up for a private Medigap policy at a cost of $100 to $200 per month (approximate).

Non-Medicare coverage issues

If you remain in the workforce past age 65 and have employer-sponsored health insurance as well as Medicare coverage, you may be asked to sign up for Part A, using your employer coverage for Parts B and D. If you continue with your employer coverage past age 65 (or if you're not in the workforce but are covered by your spouse's employer-sponsored health plan), you will not incur a penalty if you later sign up for the optional Medicare parts when your employer coverage ends.

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Reality Check on Your Retirement Savings

Whether you're 23 or 35, it's important to know whether you are saving enough for your retirement. There is no time like the present to ensure you are allocating enough funds to your retirement account.

With folks routinely living into their 80s and 90s, it's more important than ever to ensure your money lasts your lifetime. Millennials have the advantage of time. You can benefit from compounding and the long-term trends that can make a real difference over the course of several decades.

A good savings target is 15% of your income. That's a very general target, and in many cases, it's too conservative. That can be a real challenge if you are also saving for a house and/or paying off student loans. The important point is to make a commitment to your retirement savings by contributing a consistent amount with each paycheck (or if you are self-employed, every invoice). The absolute percentage is secondary; more important is to set a goal and stick to it.

How will your lifestyle change? In retirement, you may no longer be drawing a salary, although many folks take up some form of self-employment that brings in an income. It's up to you whether earnings will be part of your retirement plan. If not, your retirement savings should be robust enough to supplement your Social Security without sacrificing your lifestyle. You can check you projected Social Security payments on the Social Security Administration's website.

Time may heal all wounds. Millennials may have unpleasant memories of the Great Recession and the family turmoil it could have caused. A conservative attitude toward risk isn't surprising given those circumstances, but sticking to overly conservative investments has its own risks, such as not keeping up with inflation. You have time to recover from the inevitable ups and downs of the markets, which means you might want to consider adding some aggressive investments to your retirement account.

Figure out how long your savings will last. To get a reasonably accurate figure, you should derive your annual "burn rate." That's the amount of savings you'll need to live on each year. You then see whether it will last for your estimated life expectancy, which you can check with any number of online calculators. If the answer is no, you'll have to increase the amount you save now and/or cut back on your retirement plans.

Your retirement finances are not set in stone. You have options at any age. Call or email me to review those and decide on the best course of action. Don't put it off—the sooner you understand your financial alternatives, the sooner you can take positive action to protect your golden years.

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