

Retirement Planning, Part 10  
Health Care Expenses Risk  
By Gary Case

This column continues a discussion of retirement income planning—the risks and benefits of planning for a lifetime retirement income. However their portfolio performs, retirees' finances can be dramatically affected by the state of their health.

Indeed, health care costs pose very real risks of throwing lifetime income plans off track if they are not provided for—and the core trend in this area is not good. For a time in the mid-to late 1990's, health care managed programs and other cost containment measures had wrung some expenses out of the system. More recently, though, health care costs have resumed growing well beyond the rate of general inflation—climbing 8.7% in 2001 to reach an all time high of 14% of America's gross domestic product, the broadest measure of all goods and services produced in the United States, according to a U.S. Government Annual Report on Health Spending.

Longer life spans, retiree medical costs rising faster than general inflation, declining retiree medical coverage by private employers and possible shortfalls ahead for Medicare and Medicaid, all add up to make health care costs a critical challenge for retirees and post retirees alike.

A 2002 study by the Fidelity Employer Services Company estimates that a couple retiring today at age 65 will need current savings of \$160,000 to supplement Medicare and cover out-of-pocket health care costs in retirement, unless they have an employer-funded health plan.

Unfortunately, retiree health care benefits are clearly and dramatically on the decline as companies try to shed that burden. Inadequate health care coverage—for medical costs not covered by Medicare or Medicaid or for unexpected long-term care and rehabilitation costs—can have a devastating impact on a retiree's lifetime income plan. Maximizing savings specifically intended to meet health care costs are an urgent challenge for those in or close to retirement. It may be advisable to give serious consideration to long-term care insurance (to be discussed in another column!).

The bottom line is this; so substantial is the risk posed by health care expenses that most retirement experts now believe that health insurance itself has become one of the core elements of current retirement security along with pensions, personal savings, and Social Security. Funding such insurance, then, should be considered an essential expense in the lifetime income planning process.

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