Five Ways to Reduce Healthcare

By Cliff Goldstein and Andrew Fitch

One of the biggest expenses during retirement is health care. You might think that Medicare will cover most or all of your medical costs, but this is not the case for many. In fact, Fidelity estimates that a couple who retired in 2013 will need more than $220,000 to cover out-of-pocket medical expenses during retirement—and this number doesn't take into consideration the costs of any nursing-home care.

Being educated about how you can manage health care costs is a valuable way to ensure that your wealth endures through retirement while leaving a legacy for your heirs. A Fee-Only financial advisor can help you to incorporate these strategies into your comprehensive financial plan.

Here are five practical ways to save money on health expenses in retirement.

1. Get a Medicare supplemental plan. One way to protect against out-of-pocket health expenses and make health costs more predictable in retirement is to enroll in a fee-for-service Medicare supplement insurance plan. Also known as Medigap, this coverage plan can help pay for any copayments, coinsurance, and deductibles that Medicare doesn't cover.

Medicare can come with some very high deductibles and copays. For example, Medicare Part A, which covers hospital service, carries a deductible of $1,216 for each benefit period in 2014. With Medicare Part B, which covers physician and outpatient care expenses, most people pay a premium of $104.90 each month and a deductible of $147 per year, plus 20 percent in coinsurance for most medical services.

Medigap can save you a lot of money on these costs. In addition, some Medigap policies will pay for medical care when traveling outside of the U.S.—something that Medicare likely won't cover.

In order to get a Medigap policy, you must already have Medicare Part A and Part B. Also, there's a monthly premium for Medigap that varies by insurance company, the plan, and where you live. And a Medigap policy covers only one person (i.e., just you, not you and your spouse).

Medigap won't cover everything. For example, it generally won't cover vision or dental care, eyeglasses, hearing aids, or long-term care. In addition, Medigap plans sold after Jan. 1, 2006, don't include prescription drug coverage.

2. Enroll in Medicare Part D. To get coverage that helps cover drug costs, retirees can join a Medicare prescription drug plan, better known as Medicare Part D. Most Part D plans charge a monthly fee in addition to a monthly premium, which varies by plan. Medicare drug plans also have a yearly deductible that varies between plans, but no drug plan can have a deductible of more than $310 in 2014.

Given the variety of insurance carriers and benefit structures, it's important to choose a plan based on your prescription history every year during the open enrollment period. Medicare provides a free online Plan Finder Tool that can help. There are professional patient advocates who can help by estimating your anticipated medical costs, interpreting medical bills, identifying inappropriate claims denials, and negotiating for reduced payment. Anyone can access patient advocates on NerdWallet's Ask an Advisor platform, under the Healthcare focus area.

Most Part D plans will also have a coverage gap—known as the "donut hole"—which is a coverage limit beginning after you've spent a certain amount on covered drugs. However, savings are available. Companies that make brand-name prescription drugs are required to participate in the Medicare's Coverage Gap Discount Program, which offers discounts on brand-name drugs specifically for people who are in the coverage gap.

For 2014, the coverage gap begins after you spend a total of $2,850 on covered drugs, which includes the deductible. Once you reach the coverage gap in 2014, you'll end up paying 47.5 percent of the plan's cost for covered brand-name prescriptions.

The entire cost of the drug, including the discount the drug company pays, is counted toward the amount needed to get out of the coverage gap. Catastrophic coverage kicks in when you reach the out-of-pocket threshold (which, for 2014, is $4,550). At this point, you'd have to pay only a small coinsurance payment or copay for the rest of the year.

The donut hole will shrink substantially over the next several years—by 2020, you'll only have to pay 25 percent for brand-name and generic drugs during the coverage gap period.

3. Save big money on prescriptions. You might want to consider switching from brand-name drugs to generics, which can work just as well and might result in big savings. Another way to save on prescriptions is by ordering in bulk. For example, a drug might be available in a 90-day supply, as opposed to a monthly supply. Ask your pharmacy if they offer a discount on bulk orders of your particular drug.

Choosing the right pharmacy to fill your prescriptions also matters. According to a 2013 study by Consumer Reports, Costco's pharmacy had the lowest retail prices overall for drugs, while CVS had the highest.

4. Live an active, healthy lifestyle. By being physically active, you can increase your health—simply talking a 30-minute walk each day can increase heart health, and improving your diet can help to prevent diabetes. But exercising also gives your wallet a boost: According to the American Heart Association, physically active people save $500 a year in health care costs, primarily in the form of reduced insurance premiums and out-ofpocket costs.

Still smoking? Quitting is great not just for your health, but also for your wallet. A pack a day at $10 per pack costs $3,650 per year. Over 10 years, that's $36,500, before accounting for inflation. You can imagine the significant financial benefit if you saved those funds instead and invested them in a diversified portfolio.

5. Plan early for end-of-life care. Average out-of-pocket expenditures in the five years prior to a person's death are $38,688, according to a recent study by researchers at the Mount Sinai School of Medicine. By planning ahead, you can avoid some big expenses. The first thing you can do to plan for end-of-life care is create an advanced directive (i.e., a living will; an Advance Health Care Directive in California). This legal document gives a set of written instructions that specify the actions to take if you are no longer able to make decisions due to illness or incapacity. Next, consider buying long-term care insurance, which usually covers home care, assisted living, hospice care, nursing homes, and more. This helps cover out-of-pocket expenses, which can drain savings and retirement funds. There is also a tax benefit to long-term care insurance, with premiums considered a medical expense by the IRS. Carefully shop and compare several policies before choosing a plan. For questions about tax treatment of medical expenses, connect with Enrolled Agents or CPAs.