## The Reality of Out-of-Pocket Healthcare Expenses at Age 65

On turning age 65 all U.S. citizens with sufficient work history, generally defined as 40 quarters, become eligible for Medicare coverage. Also, those with disabilities or with end stage renal disease may be eligible for Medicare benefits prior to age 65. Medicare covers about 60% of total healthcare costs. It does not cover most dental, vision, hearing, or long-term care costs.

In addition, there are premiums, deductibles, and coinsurance requirements when it comes to Medicare coverage. It is estimated that a 65-year-old couple today will have an average of $330,000 of out-of-pocket expenses for their healthcare during retirement. These costs are expected to increase by an average of 5% annually. Understanding IRMMA can help you mitigate potential tax burden.

## Breaking Down the Four Parts of Medicare Coverage

- Part A is hospital insurance, such as inpatient, skilled nursing, home healthcare and hospice care. Most individuals receive Part A coverage premium free if they or their spouse has paid Medicare taxes for at least 10 years while working.
- Part B is medical insurance for doctors' visits, outpatient services, durable medical equipment, preventative care, and lab services. Part B premiums are calculated based on Modified Adjustable Gross Income as reported on their tax return two years prior.
- Part C is for supplemental insurance coverage to fill in the gaps not covered by the basic plans, as well as some drug coverage. Part C coverage is elected by the individual among 10 plans offered. These plans are identified by the letters A through N and are offered by private insurance companies. The premiums for these policies are determined by geography, age, and provider and can vary significantly. Policies that have more generous benefits have higher premiums.
- Part D of Medicare is payment for prescription drug coverage.

All parts of Medicare coverage may increase annually.

## Understanding IRMMA: What You'll Pay for Part B and D

Many people experience changes in the annual cost of their coverage, mostly for Parts B and D due changes in their income. Remember, your income from 2 years prior determine current Medicare premiums for Parts B and D. These premiums can vary from $185 to $628 monthly for Part B and from no premium due to $85.50 monthly for Part D. This is referred to as the Income Related Monthly Adjustment Amount (IRMMA) and may require some planning to control.

Basically, shifting sources of income from taxable to nontaxable income would offer an advantage. An example might be municipal bond interest, perhaps a portion of annuity income, withdrawals from Roth accounts Withdrawals from cash value life insurance, and income received as a return of principal. Those receiving favorable income from a legacy gift to charity, such as ECF, may benefit from such a strategy.

Asset *location* becomes as important as asset *allocation* when it comes health care planning after age 65.

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