The Legacy Report

Legacy Financial Group

"We inspire people to create the life they want, on their terms."

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Financial Planning with Health Insurance in Mind

How much might health care cost you someday?

"Financially speaking, what would be the worst thing that could happen to you?" If you ask a hundred people in their forties that question, you may get a dozen different answers. Some may say "my business going under" or "losing my house." Some might say "a divorce," "a lawsuit," or "being laid off." But how many would say "a severe illness?"

A catastrophic illness seems like a remote possibility to many; distant, decades away. As a result, that possibility may be overlooked in our financial planning.

The healthiest of us may need to save the most for health care. This may seem paradoxical, but think about what many people in their eighties or nineties experience: years of declining health and mobility, and accompanying high health care expenses.

Two projections of average retirement health care costs are very illuminating in this regard. Empower Institute (an offshoot of retirement plan administration firm Great-West Financial) has calculated the amount of money that 65-year-old males with particular medical conditions will need in order to absorb 90% or more of future health care expenses. A 65-year-old man with Type 2 diabetes, for example, will need $88,300 (in today's dollars) to cope with those costs, according to Empower's projection. It also estimates that a 65-year-old tobacco user will require $114,900 and a healthy, non-smoking 65-year-old male, $143,800.[1]

Why the difference? According to the Empower forecast, the 65-year-old diabetic has a life expectancy of 78, versus 81 for the tobacco user, and 87 for his healthier counterpart.[1]

How about a healthy 65-year-old woman? Empower projects she will need a retirement health care fund of $156,000, as women currently outlive men on average.[1]

Another take on all this comes from the respected Employee Benefit Research Institute. EBRI estimates that the average healthy 65-year-old today will need $124,000 to handle future medical expenses. EBRI's director of health research, Paul Fronstin, told the Wall Street Journal that a pre-retiree should adjust that number for inflation as follows: increase it by 5% for each year remaining until your planned retirement date. So if you are 50 right now, you will need about $250,000 to cover medical costs if you retire in 2031.[1]

The more you earn, the more you may pay for essential health benefits. Take the case of Medicare premiums. Most Medicare beneficiaries who are single filers with modified adjusted gross incomes of $85,000

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or less are paying monthly Part B premiums of $104.90-$121.80 this year. In contrast, single filers with MAGIs between $85,001-107,000 are paying Part B premiums of $170.50 a month. That premium jumps to $243.60 for a single filer with MAGI greater than $107,000, and extremely high-earning individuals pay more than that. Pre-retirees should be mindful of this, and the fact that Medicare does not pay for long term care or dental care.[2,3]

Your income level may also affect how much you pay for health coverage before you retire. As an example, a Texas household of four that expects its 2016 income to be between $24,300 and $60,625 can go to the Health Insurance Marketplace and qualify for health plans with relatively low premiums, plus savings on deductibles and copayments. A similarly sized Texas household with income higher than $97,000 cannot qualify for any such savings and must pay full price for their health coverage at the Marketplace.[4]

So looking ahead, is a Health Savings Account a good idea? For the future, it may be. HSAs must be used in conjunction with high-deductible health plans, but even with that requirement, these accounts can give pre-retirees a nice, dedicated savings vehicle to plan for future health care expenses. An HSA may become an important part of a long-run financial strategy.[5]

The annual contribution limit on an HSA is currently $3,350 for individuals, $6,750 for families. Contributions are 100% tax-deductible. (You can even make $1,000 catch-up contributions beginning in the year you turn 55, as long as you are not a Medicare recipient.) You can also optionally invest the money within the account. An HSA is tax-advantaged: assets get tax-free growth, and withdrawals are tax-free if you use the money to pay for qualified health expenses. HSAs also have another nice feature: once you turn 65, you may use withdrawals from them for non-medical purposes, though such withdrawals will be taxable. If you enroll in Medicare, you can no longer contribute to an HSA – so it is vital to fund these accounts for some years before retiring.[5,6]

It is only prudent to factor potential health care costs into your financial plan. Some healthy pre-retirees may assume that they will need only a five-figure rather than six-figure sum to address them. That assumption may be flawed.

Please contact us if you have any questions about your financial planning: 515-334-5266

Citations.

1 - tinyurl.com/hbcoezd [2/10/16]
2 - medicare.gov/what-medicare-covers/not-covered/item-and-services-not-covered-by-part-a-and-b.html [3/10/16]
3 - kiplinger.com/article/retirement/T039-C001-S003-medicare-part-b-premiums-in-2016.html# [11/13/15]
4 - healthcare.gov/lower-costs/qualifying-for-lower-costs/ [3/10/16]
5 - nytimes.com/2015/11/07/your-money/health-savings-accounts-and-medicare.html [11/7/15]
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OUR SALUTE TO VETERANS

We're so sorry if you missed the first installment of our Salute to Veterans at the Fort Des Moines Museum. A good time was had by all. This is a beautiful facility, which tells the story of the training of black officers during WWI and the women (WACs) in WWII. If you couldn't join us, we encourage you to check it out!

Upcoming:

Iowa Gold Star Military Museum
Saturday, June 4, 2016
Open 10:00 AM to 4:00 PM
Program 1:00 PM
Come early or stay after to wander the museum – inside and outside!

Iowa State Historical Museum Battle Flag Preservation Laboratory
Friday, October 21, 2016
Tours begin 1:00 & 2:30 PM
Space is limited.
RSVP with your time preference to Kathy@LFGplanners.com or call (515) 334-5266. We'll also plan a little dessert upstairs at Baratta's.

Brain Food: Feed your mind by learning something new today!

Mark Your Calendars!

RSVP to Kathy Krogmeier, at Kathy@LFGplanners.com or (515) 334-5266.

Medical Insurance Your Questions Answered
Wednesday, April 20, 2016
5:30 - 7:00 PM
Legacy Classroom
Presenter: Janis Van Ahn, Health Insurance Advisor LLC

Free Shred Event
Saturday, April 23, 2016
Noon – 3:00 PM
Legacy Parking Lot
Personal papers, cell phones, laptops, computer towers
No keyboards or monitors please

Market Update
Thursday, April 28, 2016
Noon – 1:00 PM
Legacy Classroom
Market Updates will now be available by webinar on Legacy's Facebook page about a week following the presentation.

LinkedIn Social
Tuesday, May 3, 2016
5:30-7:30 PM
Connect with Mike Banasiak on LinkedIn and watch your feed for additional details.

Subscribe to our e-newsletter at

www.LFGplanners.com

For the latest on special events. Follow us on Facebook for access to our Market Update webinars.

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Our Advisors are here for you...

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Please contact us if you have any questions about your financial planning:

515-334-5266

Scott Arnburg

MEET JAMIE LANGBEIN

Jamie has joined Legacy in the role of Relationship Manager, working with Mike toward her goal of becoming an adviser.

Jamie joined Legacy in 2016 after previous positions in human resource software sales and healthcare office management. She has a desire to help people define their financial comfort and then help them work toward achieving it. With a Bachelor of Science in public relations from Northwest Missouri State University, Jamie is an avid Bearcats fan – GO BEARCATS! - as well as the Cubs and Huskers.
If Jamie's not on the bike trail, chances are you'll find her on a golf course. She resides in Waukee with her partner, their daughter Teegan, and puppy Wrigley.