Government Executive

The High Cost of Health Coverage

By Tammy Flanagan

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Last week, we looked at some expenses to watch out for in retirement. This week, let's explore one area in which you can be almost certain your costs will increase over time: health care.

There are several reasons why this is the case:

- Many Americans are going to live a long time. According to the Social Security Administration, about one out of every four 65-year-olds today will live past age 90, and one out of 10 will live past age 95.
- Advanced technology, administrative expenses, hospital costs, lifestyle choices and chronic disease conditions continue to drive health spending upward -- more so even than doctors' salaries, according to the Physicians Foundation.
- Costs of long-term care continue to rise. According to a 2014 Genworth study, the average annual cost of a semi-private room is $80,300 per year. For single bed rooms, the price goes up to an average of $91,250 a year. The cost of care varies throughout the country.

There are two types of health care expenses you should consider as you enter retirement: Medically necessary care and personal care.

Medically Necessary Care

This the type of care needed to prevent and treat illnesses and diseases. Fortunately, most federal employees will carry their Federal Employee's Health Benefits Program coverage into retirement. FEHBP provides generous protection against the high cost of health care. But FEHBP can't completely insulate you from rising medical expenses. That's why it pays to periodically evaluate your health insurance coverage.

There are three things to consider when you do so:

- **Premiums:** The retiree share of the premium for FEHBP ranges from less than $100 per month to more than $900 per month. Retirees (and employees) may take advantage of annual open seasons to change health plans to match their changing health care needs.
- **Deductibles, copayments and coinsurance:** Annual deductibles can range from several hundred dollars up to several thousand. Copayments are generally less than $50 per office visit, but multiple office visits can result in multiple copayments. Coinsurance costs can range from zero for most HMO-style plans to as much as 40 percent of the plan allowance for traditional fee-for-service plans.
- **Catastrophic protection:** Under this type of coverage, your health plan will pay 100 percent for your health care, but you must first pay thousands of dollars out of pocket. In addition, expenses in excess of the plan allowance, coinsurance for skilled nursing care and some other expenses are not included with most plans' catastrophic protection.

For those who are healthy, the main expense is the health plan premium. The lower the premium, the better, since all FEHBP plans cover preventative care. For those suffering from chronic illnesses, deductibles, copayments and coinsurance can cause health care costs to increase due to frequent visits to health care providers. An unexpected major health event can bring the catastrophic protection benefits of all FEHBP plans into play.

Two other factors should be considered in evaluating the cost of medically necessary care: taxes and Medicare.

Check out IRS Publication 502 to find out if you qualify for a tax deduction for your medical expenses. In addition, health care savings accounts and premium conversion benefits (paying for health insurance premiums with pre-tax dollars and setting up flexible spending accounts) provide tax breaks for those who participate.

The original Medicare (Parts A and B) can provide federal retirees with lower out-of-pocket expenses for inpatient and outpatient medical expenses when used in combination with an FEHBP plan. Most FEHBP plans provide incentives for retirees to enroll in Medicare by lowering or eliminating many of the deductibles, copayments and coinsurance when Medicare is the primary payer. Check out Section 9 of your FEHBP plan brochure or your plan's Medicare coordination area of their website for more information. The downside to Medicare is that even though Part A has no premium for most people, Part B has a monthly premium of $104.90 a month (or more for individuals with higher incomes).

Personal Care Expenses

Personal care, which doesn't require someone with a license to practice medicine, is commonly referred to as long-term care. You'll need it if you have a prolonged physical illness, disability or severe cognitive impairment. Typically, it's provided by one or more of the following:

- Unpaid family members or friends (they provide about 80 percent of long-term care)
- Home health care service providers
- Adult day care centers
- Long-term care facilities, such as group homes, assisted living facilities and nursing homes

There are three primary ways to pay for long-term care:

- Out of pocket from retirement benefits and personal savings
- Long-term care insurance
- Social insurance programs, such as Medicaid, or other government benefits, such as those available for veterans and their family members

Each of these has its drawbacks. Paying out of pocket reduces the size of your estate, and your money may run out. Long-term care insurance premiums may increase over time. And social insurance programs often only apply to those with limited incomes.

The good news is that federal employees have generous retirement and insurance benefits, so it's possible to plan and prepare for a comfortable life after retirement. But it's important to be realistic about the costs of living in retirement, to make sure you're financially prepared and to understand that in all likelihood, your health care costs will go up as you age.

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http://www.govexec.com/pay-benefits/retirement-planning/2015/08/high-cost-health-coverage/119089/