Eyeing retirement, boomers ready for health care costs

Cory Kraft

Some health care costs increasing by 30 percent

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Louis Fischer is keeping a close eye on his expenses after retirement – an event that won't happen for a few more years down the road. As construction superintendent with hotel builder Drury Development Corp., Fischer started to put money in his 401(k) and didn't touch it during the 2008 financial crisis. Despite these good practices, Fischer said he will probably delay retirement a few years because of the cost of health insurance and inflation.

“No matter how much you save, inflation is eating your lunch,” said Fischer, 54. “With insurance, health care is the biggest thing.”

For baby boomers, the cost of health care during retirement will be a major expense. While programs like Medicare will cover some expenses, it will remain to be seen if boomers’ fixed income and savings can sustain the rising cost of long-term care.”

Fischer said he is just going to work longer and maintain his current financial plan.

To prepare for retirement and rising health care costs, baby boomers like Fischer are seeking out the advice of financial planners to save and invest wisely. Cory Kraft, co-founder and principal of ADK Wealth Advisory Group in Creve Coeur, said his firm has seen a lot of clients who haven’t taken the time to project what retirement will cost in the long run.

“We’ve seen health care inflating at over twice the rate of everything else,” Kraft said. “We’re going to see that continue to go up, especially with all the changes coming in. We’ve seen 30 percent increases in health costs in many sectors in the last few years with this Affordable Care Act.”

Those changes, coupled with the poorer health statistics of the post-World War II generation, mean some boomers can expect to have much higher health care costs. A report by the American Medical Association found baby boomers were more likely to be diagnosed with diabetes, hypertension, obesity and other conditions, and less likely to regularly exercise or report their health as “excellent” than prior generations at the same age.

Jeff Lapidus, president of Clayton-based JBL Financial Services, said many of his clients are using Medicare and supplementary plans to reduce their out-of-pocket health costs significantly after they hit the eligibility age of 65. The Washington, D.C.-based Urban Institute estimates a two-earner couple, age 65 in 2010, can expect $387,000 in Medicare benefits over the course of their lifetime. In 2011, 93 percent of Americans age 65 and over were covered by Medicare, with 86 percent having supplementary plan.

But while Medicare will cover some health costs, it won't cover everything. Another study from Fidelity Benefits Consulting in Boston found a couple turning 65 years old in 2012 could expect to pay an average of $220,000 in out-of-pocket medical bills before they die.

To manage costs like these, Kraft said baby boomers should tackle financial planning like building a house: Lay the foundation by considering the expenses they expect to have 20, 30 and 40 years in the future. From the location and size of the house they want to live in to the kind of car they expect to drive, boomers have to assess the costs they will incur in retirement, Kraft said. Boomers should also design their plan based on what the cost of goods will be in the future, not at the moment. According to Kraft, health care costs have increased about 6 percent annually in recent years.

Both Lapidus and Kraft said in order to combat growing costs and shore up savings, some clients have decided to work past the traditional retirement age. Kraft said the biggest mistake workers make is to retire too early.

"If you get somebody who retires a year too early, they won't feel it right away," Kraft said. "Fifteen years into it, when inflation has significantly increased their expenses – that's when they are going to feel it. When you are 75, that's the wrong time to realize you've made a mistake."

Richard Kraner, a partner at accounting firm Stone Carlie & Co., said investors should resist the impulse to jump out of the market during a downturn. Likewise, investors shouldn't sacrifice stability for a chance at quick money when the market is bullish.

"The most important thing to do is develop and plan and stick to it. And have discipline, because the market is going to ebb and flow," Kraner said. "In the good times, you want to over-allocate to riskier assets and, in the bad times, you want pull all of your chips off the table and get them out of the market. And that's what hurts people's ultimate savings goals."

Working Past Traditional Retirement

Percentage of working Americans age 65 and older
2012 – 18.5%
2010 – 16.1%
1990 – 12.1%
Source: Bureau of Labor Statistics, U.S. Census