



Could Medicare's Gaps Derail a Retirement Plan?

Medicare is the foundation for U.S. retiree healthcare coverage, but it does not cover every expense. How can you help clients plan for those limitations?

Mind the Gap

Retirees with Medicare may still need to pay for many expenses from personal resources or savings. In this article, we'll primarily focus on out-of-pocket expenses, prescription drugs, dental, vision, and long-term health needs, but be mindful of healthcare inflation, unexpected medical events, and other costs that can impact clients' retirement plans.

Out-of-Pocket Medical Expenses

Retirees assume Medicare will cover most of their healthcare costs but find out there are still expenses to manage. Depending on the coverage they choose, they may be responsible for:

- Deductibles.
- Copays.
- Coinsurance.
- Premiums.
- Other out-of-pocket costs.

For those coming from an employer health plan, the transition can be eye-opening. Original Medicare has separate deductibles and requires beneficiaries to share the cost of many services, and unlike many workplace plans, it does not include an annual out-of-pocket maximum. Medicare Supplement, or MediGap, can offer very effective coverage for deductible and co-insurance, but adding this coverage can increase overall costs. Medicare Advantage plans may offer limits to expenses

but come with narrow networks and lower flexibility. As healthcare needs increase over time, routine doctor visits, specialist care, outpatient procedures, and hospital stays can add up and add pressure on retirement income.

Prescription Drug Costs

Medicare Part D can help offset medication expenses, but the levels are based on plan design and individual healthcare needs. Retirees with chronic conditions could require multiple medications for years. And when clients' needs change, drug costs can become even more costly.

Dental and Vision

Original Medicare covers medically necessary dental and vision services—such as jaw reconstruction or cataract surgery—but retirees often are responsible for most routine expenses, such as:

- Annual cleaning.
- Routine x-rays.
- Fillings.
- Crowns.
- Eye exams.
- Eyeglasses.

Another option is Medicare Advantage, which offers limited dental care, vision, gym memberships, and more. However, this coverage is typically offered with a narrow network and may not include your client's provider. Even with this option, many expenses still will require separate planning and funding.

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Long-Term Care (LTC)

Perhaps the largest potential gap is LTC. As life expectancies increase, the question for many retirees is no longer if care will be needed but *what type*, when, and how long. Many healthcare expenses are resolved quickly, but LTC can persist for years.

Many clients may associate LTC with nursing homes, but in reality, care needs often begin with assistance with Instrumental Activities of Daily Living, which can include:

- Meal preparation.
- Medication administration.
- Housekeeping and cleaning.
- Shopping and errands.
- Laundry.
- Transportation.

For some, assistance needs may remain relatively modest. For others, care may progress to assisted living, memory care, or skilled nursing services that can last for years. The level and duration of care needed can vary widely, making it difficult to predict the potential financial impact. Without a plan in place, these expenses can place significant pressure on retirement assets and income.

The Prescription Is Planning

Understanding potential shortfalls is the first step, but simply identifying them does not solve the overall impact on savings. When planning for client conversations about healthcare planning, ask yourself: How can clients prepare today for healthcare expenses that can arise tomorrow?

These planning strategies may be worth consideration as you help clients create a financial safety net for the costs Medicare may not fully cover.

Guaranteed Income Sources

Protected lifetime income can be a great place to start. These income streams provide predictable payments at regular intervals—regardless of market conditions—and can include:

- Social Security retirement benefits.
- Pensions.
- Fixed income ladders.
- Annuities.

Having reliable income allocated toward everyday living expenses, Medicare premiums, and routine healthcare costs can preserve investment-account assets when unexpected expenses arise. In turn, retirees may be able to respond more flexibly when larger healthcare expenses or LTC needs occur.

At the same time, it's important to understand how additional income fits into the bigger picture. Higher income can affect the taxation of Social Security benefits, increase Medicare premiums through IRMAA surcharges, and potentially create other tax consequences and an additional 3.8% Net Investment Income Tax (NIIT). That's why healthcare planning isn't just about generating income; it's also about understanding how that income impacts the rest of the client's retirement plan.

LTC/Hybrid Strategies

For clients worried about the financial impact of extended care, traditional LTC insurance or hybrid life insurance policies or annuities with LTC benefits can help provide a dedicated source of funding. By addressing this potential gap ahead of time, retirees may be able to protect primary retirement assets for other goals.

Dedicated Assets

Sometimes the value isn't the strategy itself but the confidence that comes from having a plan. By identifying assets that may be available to help cover future healthcare expenses, clients may feel more prepared for how those costs might affect the rest of their retirement goals.

One approach is to designate specific assets for healthcare-related costs before those expenses arise. This could include a:

- Health Savings Account (HSA) for future medical expenses.
- Roth IRA that can provide tax-free distributions without increasing taxable income (and potentially triggering higher Medicare premiums through IRMAA).
- Taxable investment account that may benefit from long-term capital gains treatment.

By building a dedicated healthcare reserve, clients may be able to absorb unexpected expenses without disrupting their overall retirement-income strategy, liquidating assets at inopportune times, or sacrificing other financial goals.

There's No Such Thing as Too Early

No one can predict the timing or costs of healthcare expenses. However, clients who have planned ahead to address potential gaps—whether through insurance, guaranteed income, or dedicated assets—may find themselves in better positions when those costs arise. At the end of the day, it's not about eliminating uncertainty; it's about having a plan to face it with confidence.

ACTIONS YOU CAN TAKE RIGHT NOW

- Identify pre-retirees and evaluate their potential healthcare costs.
- Plan ahead for which strategies could address gaps.
- Schedule meetings to discuss clients' specific needs and possible paths forward.

Additional Resources and Links

[Healthcare Costs Vary Greatly. Personalization is Key.](#)

[Healthcare Expense Analyzer Tool](#)

[Know Your Medicare Options](#)

[Healthcare Planning for Clients: One Size Fits None](#)

For more information about retirement planning,
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