

# LIVING OFF YOUR SAVINGS:

## HEALTHCARE ISSUES IN RETIREMENT

By Deborah Frazier

While no one can insure for all situations, retired couples can put together a cost-efficient package based on government and private programs to cover the most common healthcare scenarios. An overview of healthcare concerns for retired couples.

When Joe and Marie Swanson neared age 65, all of their lifelong fantasies about retirement intensified. But, before they could begin the fun, they wanted to make sure they were sufficiently protected against problems that could drain their financial resources. Their primary concern centered around healthcare issues.

The Swansons worked their entire lives to raise and educate their three children. They have modest resources, but enough to enjoy a rewarding retirement. They own their home, have no debts, have an IRA worth \$145,000, and invested savings of \$80,000. Joe will receive a pension from his company and both will receive Social Security.

Although both are in good health, they are committed to not “being a burden” to their children. While they understand that no one can insure for all situations, they hope to put together a cost-efficient package of government and private programs to cover the most common healthcare scenarios.

### MEDICARE

Like most workers, the Swansons are eligible for Medicare Part A and Part B. Medicare eligibility is determined much the same way as Social Security—generally, 40 quarters of eligible employment will qualify you for Part A at no charge and allow you to purchase Part B for \$45.50 per month, which is deducted from your monthly Social Security check. Part B has an enrollment period, which generally begins three months prior to age 65 and ends three months after your birthday month. If you decline Part B, there are periodic enrollment opportunities.

Figure 1 provides a short description of Medicare coverage and can be used to determine where the risks of out-of-pocket expenses are greatest. (Another good source of information is the Medicare Web site at [www.medicare.gov](http://www.medicare.gov)).

However, to further complicate matters, Medicare began new plans in January of 1999: Medicare Managed Care and a test program called Medical Savings Plan.

Under Medicare Managed Care, Medicare pays for the premiums for you to enroll in an HMO (Health Management Organization) or PPO (Preferred Provider Organization), and they provide all of the Part A and Part B coverage. You still pay the Part B cost. Depending on the healthcare plan, there may be a small co-payment for each visit. (To find out if your area has a Managed Care Plan for Medicare beneficiaries, call 1-800-318-2596).

One benefit of the Managed Care Plan is that there is no need for Medigap coverage. The downside, however, is the selection of doctors. Depending on the type of coverage you choose, HMOs and PPOs are usually restrictive—you must use the plan’s doctors.

A second negative factor with the Medicare Managed Care Plan is that the plan can decide at any time to terminate its contract with Medicare. If that

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*Deborah Frazier is principal of Frazier Financial Consultants, a fee-only financial planning firm based in Chapel Hill, North Carolina. Ms. Frazier is also a member of the National Association of Personal Financial Advisors (NAPFA), an organization dedicated to fee-only financial planning. Information on fee-only financial planners can be obtained by calling 888/333-6659, or visiting the NAPFA Web site at [www.napfa.org](http://www.napfa.org).*

**FIGURE 1. MEDICARE COVERAGE**

<b>Medicare Part A</b>			
<b>Services</b>	<b>Benefit Period</b>	<b>Your Cost</b>	<b>Notes</b>
<b>Hospital Stay:</b>			
<ul style="list-style-type: none"> <li>• Semi-private rooms</li> <li>• Meals</li> <li>• Nursing care and service</li> <li>• Medical Supplies</li> </ul>	<ul style="list-style-type: none"> <li>• Days 1-60</li> <li>• Days 61-90</li> <li>• Days 91-150</li> <li>• Over 150 days</li> </ul>	<ul style="list-style-type: none"> <li>\$768</li> <li>\$192/day</li> <li>\$384/day</li> <li>All costs</li> </ul>	
<b>Skilled Nursing Care:</b>			
<ul style="list-style-type: none"> <li>• Semi-private room</li> <li>• Meals</li> <li>• Skilled nursing care</li> <li>• Rehabilitative Services</li> <li>• Medical Supplies</li> </ul>	<ul style="list-style-type: none"> <li>• Days 1-20</li> <li>• Days 21-100</li> <li>• Over 100 days</li> </ul>	<ul style="list-style-type: none"> <li>\$0</li> <li>\$96/day</li> <li>All costs</li> </ul>	This does not apply to assistance with daily living
<b>Home Health Care:</b>			
<ul style="list-style-type: none"> <li>• Intermittent skilled nursing care</li> <li>• Rehabilitative services</li> </ul>		<ul style="list-style-type: none"> <li>• \$0 for home care services</li> <li>• 20% of costs for approved medical equipment</li> </ul>	You must meet Medicare conditions to qualify
<b>Hospice Care:</b>			
<ul style="list-style-type: none"> <li>• Terminal illness care</li> <li>• Pain management</li> <li>• Supportive services</li> </ul>		<ul style="list-style-type: none"> <li>• Limited drug costs</li> </ul>	Medicare pays for most of drug costs and respite care
<b>Blood Services:</b>			
During a covered stay in hospital or skilled nursing facility		<ul style="list-style-type: none"> <li>• First 3 pints</li> </ul>	
<b>Medicare Part B</b>			
<b>Services</b>	<b>Your Costs</b>	<b>Notes</b>	
<b>Medical Expenses:</b>			
<ul style="list-style-type: none"> <li>• Doctors</li> <li>• Inpatient medical &amp; surgical expenses</li> <li>• Outpatient medical &amp; surgical expenses</li> <li>• Medical Equipment</li> </ul>	<ul style="list-style-type: none"> <li>• \$100 deductible</li> <li>• 20% of approved expenses</li> <li>• 50% of mental outpatient</li> <li>• 20% of physical therapy for \$1,500, 100% after</li> </ul>	Approved expenses	
<b>Clinical Laboratory Services</b>			
<ul style="list-style-type: none"> <li>• Blood test, urinalysis</li> </ul>	<ul style="list-style-type: none"> <li>• No costs</li> </ul>		
<b>Home Health Care</b>			
<ul style="list-style-type: none"> <li>• Skilled care</li> <li>• Home health aide</li> <li>• Medical equipment</li> <li>• Medical supplies</li> </ul>	<ul style="list-style-type: none"> <li>• \$0 for services</li> <li>• 20% of medical equipment</li> </ul>		
<b>Outpatient Services</b>			
<ul style="list-style-type: none"> <li>• Diagnosis or treatment of illness or injury</li> </ul>	<ul style="list-style-type: none"> <li>• 20% of costs</li> </ul>		This is based on Medicare's payment amount to hospital
<b>Blood:</b>			
<ul style="list-style-type: none"> <li>• As outpatient</li> </ul>	<ul style="list-style-type: none"> <li>• First three pints</li> <li>• 20% after</li> </ul>		The 20% refers to the approved amount
<b>Part B helps with:</b>			
X-rays, speech pathology, artificial eyes and limbs, body braces, kidney transplant and dialysis, emergency care, medical supplies, breast prostheses following mastectomy			

happens, enrollees will be returned to the original Medicare plan.

The Medicare Medical Savings Account (MSA) program is a test for 390,000 eligible Medicare beneficiaries. Under the Medicare MSA program, you must stay enrolled for a full year. Medicare pays the premium for the plan and makes a deposit to your savings account under the plan; you then use the savings account to pay medical expenses. Depending on the MSA plan, you might have a choice of providers. The deductible is higher than other Medicare plans and once the money runs out of the savings account, you have to pay out-of-pocket. However, if there is money left at the end of the year, you can roll it over to the following year. If you withdraw it for non-medical reasons, the money can be taxed at ordinary income rates.

**MEDIGAP POLICIES**

After the Swansons reviewed all of the Medicare information, it was obvious to them that some gaps remained in their situation. So they turned to Medigap. These private insurance policies are regulated by the state and federal government. Each plan has 10 levels of coverage from A to J (see Figure 2), so comparison is relatively easy. (Information on these supplemental insurance plans can be found in “The Guide to Health Insurance for People with Medicare.” Call 1-800-638-6833 to request a copy). Consumer protection of these plans is guaranteed by the following regulations:

- There must be a 30-day money back cancellation period.
- Medigap policies may not impose more than a six-month wait for

pre-existing illness.

- Once you qualify for Medicare there is a six-month enrollment period where you can't be denied a Medigap policy, although the six-month pre-existing illness rule may apply.
- Your policy can't be cancelled except for non-payment or false application statements.
- Medigap insurers are prohibited from selling plans that duplicate Medicare coverage.

The Swansons' decision was to choose the traditional Medicare coverage, Part A and Part B. Their decision came down to provider choice. For any gaps, they decided to purchase a private insurance plan.

Due to ongoing prescription drug needs, the Swansons calculated that drug cost coverage would be economical. That narrowed the Medigap policies to H, I, and J.

**FIGURE 2. COVERAGE OF MEDIGAP POLICIES**

Service	Medigap Policy Type									
	A	B	C	D	E	F	G	H	I	J
Basic Plan—(see below for details)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Medicare A deductible; Value \$765		✓	✓	✓	✓	✓	✓	✓	✓	✓
Skilled nursing care: \$95/day; day 21-100			✓	✓	✓	✓	✓	✓	✓	✓
Medicare B deductible; Value \$100			✓	✓		✓			✓	✓
Foreign Emergency: 80% for necessary medical; \$250 deductible			✓	✓	✓	✓	✓	✓	✓	✓
At Home Recovery: \$1,600/year following illness, injury or surgery				✓	✓		✓		✓	✓
Preventive Care: \$120/year					✓					✓
Medicare B excess charges						✓	✓		✓	✓
Drugs: 50%, \$250 deductible								\$1,250	\$1,250	\$3,000

**The Basic Plan:** Covers Part A co-insurance amount for hospital days 61-90; maximum of additional 365 days of eligible hospitalization over lifetime of the insured; the first three pints of blood if deemed reasonable; co-insurance for doctors, medical and surgical expenses in Part B coverage and coverage for Part A co-insurance amount for each Medicare non-renewable 60-day hospital days.

They finally settled on H, which pays healthcare during foreign travel and helps with prescription drug costs.

## THE LONG-TERM CARE ISSUE

Once they had settled on their current healthcare coverage, the Swansons began a review of their need for long-term care coverage.

While Medicare and Medigap policies will cover some of the costs of "skilled nursing care" that is rehabilitative or treatment-oriented, there is no coverage for custodial care. That puts any retired couple at risk of spending all of their assets on nursing home care. Although Medicaid, a government program for the poor, would eventually step in and pay nursing home costs, this does not occur until after the healthy spouse is impoverished.

Home healthcare is one option that allows both spouses to stay in their own home for as long as possible without placing the burden of care on other family members. But there are pros and cons to this option. One major problem with home healthcare is the difficulty of finding good healthcare. Lapses in care can occur due to illness of the healthcare worker or incompatibility. The violation of space is also an important concern, since a stranger may be spending a large part of the day and night in the home. And, of course, even home healthcare can be a drain on financial resources.

When the Swansons reviewed their own situation, they realized that their current plan for healthcare insurance would not cover a nursing home, home healthcare, or assisted living in the event that they need help with daily living. Thus, they decided to look at long-term healthcare insurance.

The Swansons met with a long-term care specialist who represented many different companies. In addition, their oldest son had a long-term care policy group benefit at his

job that was available to parents of employees. And their state had an agency (most states have information clearinghouses) with information on aging issues, including long-term care policies. Finally, the NAIC (National Association of Insurance Commissioners) publishes an informative booklet entitled "A Shopper's Guide to Long Term Care Insurance" (this can be requested by calling 1-816-842-3600; the first copy is free, subsequent copies \$0.50 each).

Long-term care insurance has several options to consider:

- There are several waiting periods available for coverage to begin.
- Each person can choose the number of years to be covered, as well as the maximum coverage for lifetime.
- Policies are determined by the daily rate. You can choose \$80/day or \$100/day and sign up for inflation coverage.
- Additional decisions to be made before selecting coverage can include: Waiver of Premium, Benefit Triggers (what type of event triggers coverage), and Care Coordination (for an additional fee, some insurance companies will provide assistance and monitoring of care providers).

New tax legislation has made some long-term care policy premiums tax-deductible as a medical expense.

In reviewing the policies, the Swansons had several concerns. First, depending on the coverage, costs could be high and could be increased in later years. Second, they wondered whether they would be lowering their lifestyle while they were healthy simply to provide coverage they might need at some future date.

The Swansons also wanted both nursing home and home care coverage, and Joe discovered that all policies were not alike in their definitions of home care. Some

covered only RNs, LPNs or other licensed professionals, while others allowed a more generous definition of "professionals" to include home health aides.

The Swansons decided that they wanted some coverage for each of them. They wanted a cost-effective policy that would help cover a reasonable amount of expenses from an insurance company that was financially secure, so they checked the A.M. Best ratings. And to get an idea of the amount of nursing home coverage they should get, they called a nursing home they liked, found out the daily rates, and asked how those rates had increased over the years. They also asked for the same information from the local home health agency. Then, they asked for policy quotes for the following insurance coverage:

- \$100/day nursing home coverage;
- \$100/day home health coverage;
- \$80/day assisted living care;
- 90-day wait period;
- 10-year coverage that can be used by either Joe or Marie; and
- Inflation protection.

After comparing various quotes for long-term care policies with that specific coverage, they choose the lowest quote from a company rated A+ by Best.

## CONCLUSION

Healthcare problems can seriously drain your financial assets, and these issues are a particular concern to retired couples living off of their hard-earned savings. It isn't possible to foresee future events, but it is possible to make informed decisions on healthcare insurance coverage. While you can't cover all medical events, you can protect each other from the need to spend down family assets to qualify for Medicaid, should a lengthy illness occur. As with most financial decisions, your choice will be based on your own financial needs and resources. ♦