



**TOLMAN & WIKER**  
**INSURANCE SERVICES, LLC**  
INNOVATIVE RISK ADVICE SINCE 1923™

VENTURA | LOS ANGELES | SALINAS | SANTA MARIA | BAKERSFIELD

## Retiree Social Security Benefits to Be Wiped Out by Health Care Costs

April, 2014

Think Advisor

Everyone knows that health care costs in the U.S. are rising. An index introduced Thursday puts that rise into grim perspective.

HealthView Services' new Retirement Health Care Cost Index shows that middle-class Americans are approaching the day when they will have to use their entire Social Security benefit to pay for their health care.

The index may serve as a useful tool for financial planners working with clients who are approaching retirement.

It measures the percentage of Social Security benefits required to pay for health care-related costs in retirement for a healthy couple receiving the average expected Social Security benefit at full retirement age.

Total retirement health care costs measured by the index include all Medicare premiums, including Parts B and D, Medigap premiums, as well as co-pays not covered by Medicare.

Those costs will increase from 69% of Social Security benefits for a couple retiring in one year to 98% of benefits for a healthy couple retiring in 10 years.

Couples retiring in 20 years will need 127% of their Social Security benefits to cover health care costs, and those retiring in 32 years will need 190%.

Translated into today's dollars, that means an average healthy couple retiring in 2015 will face healthcare costs of approximately \$366,599, according HealthView Services data.

In another 10 years, those costs will rise to approximately \$421,083 in today's dollars, reflecting estimated health care cost inflation and Social Security cost-of-living adjustments.

As a result, HealthView Services said in a statement, many Americans will have to earmark their Social Security benefits to pay for health care, and rely on other assets and sources of income to pay for living expenses in retirement, such as housing, transportation, travel, taxes and food.

"The index reveals an ugly truth that will come as a shock to many," Ron Mastrogiovanni, founder and chief executive of HealthView Services, said in the statement.

"Many Americans believe that Medicare will cover most or all of their health care costs in retirement. This is simply untrue."

The index draws on HealthView Services' cost data from more than 50 million annual health care cases. According to the firm, it is calculated using an actuary- and physician-reviewed methodology that determines individual longevity and retirement health care costs based on age, gender, health and time to retirement.

The index assumes that the primary income earner will generate the Social Security average of \$1,294 per month in today's dollars and the spouse \$817 per month. While health care costs tend to increase as retirees age, the index measures the lifetime average of health care costs.

### Escalating Costs

Better-off couples who receive less than \$170,000 in retirement income will use a smaller portion of their benefits for retirement health care costs than those receiving average Social Security benefits. Even so, health care costs will still take up a sizeable portion of those benefits.

For a healthy couple retiring in one year with one spouse earning maximum Social Security benefits, but earning less than \$170,000 in total income, 39% of benefits will be required to pay for care. This amount will rise to 52% if they retire in 10 years.

The burden becomes heavier if the same couple earns more than \$170,000 in retirement, as they will be subject to the Medicare surcharge, which depending on their modified adjusted gross income raises Medicare Parts B and D premiums by between 35% and 200%.

An affluent couple retiring in one year who fall into Medicare's top income bracket will be responsible for an additional \$255,267 in lifetime Medicare surcharges.

The index shows how the gap between health care cost inflation of 5% to 7%, based on current HealthView data, and the 2% expected cost-of-living increases in Social Security will drive the increasing portion of Social Security required for future retirees' healthcare costs.

It also underscores the range of factors that people need to take into account when planning for retirement. These include age, gender, marital status, health, where they live, number of years to retirement and when they elect to receive their Social Security benefits.

"For middle-class Americans who tend to rely more on Social Security benefits, the differential between the healthcare cost inflation rate and Social Security cost-of-living adjustments is a time bomb," Mastrogiovanni said.

"The index highlights the need for a comprehensive and individualized approach to retirement planning that factors in expected health care costs."

Mastrogiovanni said the index highlights the need for advisor tools that show how decumulation strategies — working longer, saving more, moving to a less expensive state and Social Security optimization — will influence retirement plans.

© 2014 Summit Professional Networks

#### Forward this article to a colleague

Address To	<input type="text"/>	Recipient Name	<input type="text"/>
Subject	<input type="text"/>		
Message	<input type="text"/>		
<input type="button" value="Send"/>		<input type="button" value="Reset"/>	