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How to cut health-care costs in retirement

By Robert Powell, MarketWatch

Medicare beneficiaries spent on average $3,324 a year of their own money on health care in 2010, according to a recent AARP report. But 10% of beneficiaries — almost five million people — spent more than $8,030, according to the report.

That may seem like pocket change compared with what you need to earmark for prescription drugs if you retired last year. To wit: Setting aside $151,000 of your nest egg for prescription drugs would give a couple retiring last year with median health costs a 50% chance of having enough money to provide for their medications, according to the Employee Benefits Research Institute. And setting aside $220,000 would give you a 90% chance of having enough money for your meds.

So, what can you do to trim those kind health-care costs in retirement? Financial planners shared with us some novel and some tried-and-true ways to cut costs.

What are real-estate trends in 2014?

Homes.com executive vice president Brock MacLean joins MoneyBeat w ith a forecast for the real-estate market for the coming year. Photo: Getty Images.

"In my view, it is always about being proactive to relieve the stresses of not preparing ahead of time," said Tracy St. John, the founder of Financial Avenues, a financial planning and investment management firm based in Kansas City, Mo.

Prior to retirement, consider participating in wellness programs and opening a health savings account. Read How to pay for health care in retirement.

The best way to cut health care costs, though it might sound trite, is to stay healthy and active, said Celia Brugge, a financial planner with Dogwood Financial Planning in Memphis, Tenn. "Take charge of your own health by being physically active and eating properly," she said.

Others share that point of view. "Stay healthy," said Jeanne Gibson Sullivan, a certified financial planner with Financially in Tune in Wakefield, Mass. "I mention that seemingly nonfinancial tip frequently to clients nearing or in the early stages of retirement."

But for some people whose health is poor, that may just not be an option. "However for many, even changes when a person is in their 70s can dramatically lower their health-care costs," said Gibson Sullivan. "Eating better, exercise are simple, basic but very important factors to staying healthy and lowering health-care costs."

Of note, the burden of health-care costs was particularly heavy for the sickest and oldest beneficiaries as well as for near-poor beneficiaries, according to the AARP report.

Shop wisely for the right type of Medicare plans, be it Part D, Medicare Advantage, and Medigap plans. "We encourage our retiring clients to invest in a good Medicare supplemental insurance contact that picks up all the copays, deductibles, and other potential out-of-pocket expenses," said Tim Knotts, a senior planner and one of the two owners of Hogan-Knotts Financial Group, a financial planning firm in Red Bank, N.J.

But contrast, Knotts discourages clients from purchasing "the relatively cheaper, but more expensive in the long-run, in our opinion, Medicare Advantage plans."

In addition, Knotts said Medicare beneficiaries should revisit these decisions, along with their Medicare Part D prescription drug plan annually to make sure they still have the right coverage for them.

"Take advantage of Medicare open enrollment each year to see if there is a better plan available," said Brugge.

Being aware of changes in Medicare prescription drug plans can help you save on health-care expenses and reduce prescription drug spending, according to the Employee Benefit Research Institute. Read The High Cost of Health Care in Retirement.

Be a smart consumer of health care. "Don't be afraid to ask what a service will cost up front," said Brugge. She recommends using web-based services that allow comparison shopping, such as OkCopay.

Purchase a long-term care insurance policy. "We encourage most of our clients to invest in a good long-term care insurance policy, if they are eligible and relatively young enough — say ages 50 to 65 — to get a reasonable premium," said Knotts.

In a bind?

If you're in a bind, and you don't have enough income to support all your expenses in retirement, consider the following.

Keep on working. If you are able, St. John recommends that you keep working even if only part time and earmark that income for health-care expenses.

Reduce your standard of living. "This wouldn't be a choice many would want to take or could take, said St. John. "But if need, you could do by choosing to set aside a portion of your monthly retirement income check in a separate savings account for the purpose of health-care expenses."

Get a housemate. According to St. John, sharing expenses for housing, utilities and the like can allow one to have additional funds which could be set aside for health care costs. An alternative to getting a roommate is becoming a roommate. St. John suggests moving in with family. For some, helping with kids and chores around the house for a specific wage could help pay for health-care costs. "For example, offer to cook a meal or offer to take kids to school or activities to free up the adults burden of running a household," St. John said.

Make use of community centers and services for seniors. "There may be activities for free, meals for free and other opportunities that reduce your out-of-pocket living expenses," said St. John. "Then, the reduction will make available funds for health-care expenses."

If in dire need, ask for help. According to St. John, there are many nonprofit organizations and churches wanting to help their communities. "Sometimes, the members of the organizations are waiting for those in need to seek them out," said St. John.

Not yet a Medicare beneficiary

By the way, if you aren't a Medicare beneficiary just yet, now would be a good time to project what your health care expenses might be based on your circumstances, your health, your longevity, your income, your state of residence and the like.

"Pre-retirement, we are projecting all of these costs as separate line items in their retirement cash flow projections to make sure they still have a 'healthy" probability of success in reaching all their financial goals in retirement, which is defined as not running out of capital before reaching life expectancy — currently set at age 93," said Knotts.

Robert Powell is editor of Retirement Weekly, published by MarketWatch. Follow his tweets at RJPIII . Got questions about retirement? Get answers. Send Bob an email here .