



Market**W**atch

Social Security will barely cover your health costs

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If you need a reminder that Medicare covers only a portion of retiree medical expenses, check out [this report](#).

Released Wednesday by HealthView Services, Inc., a Danvers, Mass. company that provides retirement health care cost data and tools to financial advisers, it finds that a 66-year-old couple retiring this year with average Social Security benefits can expect medical costs to consume 67% of the Social Security they will receive in retirement.

When people plan for retirement, many expect “Social Security will cover at least their fixed expenses,” including food and shelter, says Ron Mastrogiovanni, founder and CEO of HealthView Services. Thanks to the rising cost of medical care, retiring baby boomers, he adds, “are in for a rude awakening.”

For couples in midlife today, the news is even grimmer. A 55-year-old couple who plans to retire in ten years can expect to devote about 90% of their lifetime Social Security benefits to healthcare costs.

Biotech’s Rally Fuels Bubble Fears

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Fears of a bubble in the biotech industry? WSJ’s Greg Zuckerman discusses the dramatic rise in stock values in the sector. Photo: AP

The reason why medical costs consume an ever-growing share of Social Security benefits? Social Security benefits typically grow by approximately 2% a year—the overall rate of inflation. But medical costs in general tend to rise by more, 5% to 7% a year, says Mastrogiovanni.

“The report shows retirement health care costs on track to exceed Social Security benefits many retirees are relying on,” says Mastrogiovanni.

In preparing the HealthView Services’ Retirement Health Care Cost Index, Mastrogiovanni calculated the amount a couple with an average income would receive in Social Security benefits—\$25,332 combined — and compared it to the \$266,600 they can expect to spend throughout retirement on health care. The medical cost figure includes the cost of premiums for Medicare Parts B and D and Medicare Supplement insurance, which covers some or all of what Medicare does not, including co-payments and deductibles. The projections assume future healthcare costs will rise by an average of 6.5% a year.

But Medicare-related costs are only part of the story. By adding the cost of dental, vision, hearing-related services — none of which Medicare covers -- total projected retirement health care costs rise to \$395,000 for today’s 65-year-old couple, the report says. (None of the projections include the potential costs of long-term care.)

But these projections understate the cost of medical care for [those with high incomes](#) and those in good health. Indeed, if your income exceeds \$85,000 (for singles) or \$170,000 (for couples), you can expect to pay surcharges — of between

35% and 200% -- to the premiums you pay for Medicare Parts B and D. (Medicare Part B pays for doctor's visits and other types of outpatient care; Part D covers prescription drugs.)

The same goes for healthier people, who generally can expect to live longer — and pay higher lifetime medical bills. For example, HealthView calculates that an average 55-year-old male Illinois resident with Type II diabetes can expect to pay about \$118,000 in total medical costs, versus \$233,000 for someone in good health. The reason: With diabetes, his life expectancy is 76, versus 86 for a 55-year-old in good health.

One way to keep a lid on medical costs is to take steps now to keep your Modified Adjusted Gross Income below the thresholds at which surcharges on Medicare premiums kick in. For example, any money you spend from a Roth IRA or 401(k) or a Health Savings Account doesn't count towards MAGI, says Mastrogiovanni.

For those who have time to save more before retirement, the good news is that it's possible to plan for these costs, says Mastrogiovanni. For example, a 55-year-old couple who puts away \$1,200 a month (and earns a 6% return on their investments) should be able to amass enough to cover their medical costs, he adds.

HealthView offers a basic, [introductory calculator](#) that can help you estimate the healthcare costs you are likely to face in retirement.

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