



# Don't let rising healthcare costs threaten your financial health. An age-by-age holistic approach can be the best strategy.

---

W

ith 90% of high-net-worth households\* concerned that rising healthcare costs could hurt their ability to enjoy retirement, it is obvious healthcare costs can affect everyone's financial plans, regardless of income. As our life expectancies increase, we face not only the possibility of our own health-related expenses, but also increasingly those of our parents. For this reason, it's wise to take a holistic approach to your physical and your financial health at each stage of life.

## **While You Are Getting Established**

Many people in their 20s and 30s give little thought to their health, but this can be a costly mistake. Laying the groundwork now for both financial and physical health is important. Even simple steps like maintaining a healthy lifestyle and going to the doctor for regular checkups can save you money down the road.

From a financial planning standpoint, one of the mistakes many people in this age group make is neglecting to protect their current income. While many people associate disability with aging, government statistics show that a 20-year-old has a 30% chance of becoming disabled before retirement. And while Social Security covers most employees, its benefits are generally inadequate for people with a high standard of living. For this reason, ensuring you have adequate disability insurance is important, even when you are young.

Starting your retirement savings when you are young is also crucial to avoiding having your retirement plans derailed by healthcare costs. Many

younger people overlook the importance of maximizing their contributions to tax-deferred retirement plans. But making contributions while you are in your 20s and 30s maximizes the power of tax-deferred compounding within these plans. And if your income falls within the limits for establishing a Roth IRA (between \$95,000 and \$110,000 if you are single and \$150,000 to \$160,000 if you are married filing a joint return), you can take advantage of many years of tax-free growth on your contributions.

And if you are an entrepreneur, working to start your own business, you may not be covered by a corporate health insurance policy. If so, you may want to consider opening a Health Savings Account (HSA). HSAs were created by the 2003 Medicare bill, and are designed to help people covered by high-deductible health insurance save for future qualified medical and retiree health expenses on a tax-free basis. And money in an HSA can continue to accumulate and grow tax-deferred (or tax-free if used to cover qualified medical expenses) until you need it.

Assuming your greatest healthcare needs will be post-retirement, you should pay current healthcare costs with after-tax dollars and allow HSA contributions to build tax-deferred until after retirement, says Mark Hall, professor of law and public health at Wake Forest University. “Fund it, but let the money accrue,” he says. “Don’t spend it unless you have to.” This can allow you to accumulate a sizeable pool of money for covering your post-retirement medical expenses.

### Feeling the Squeeze

For baby boomers in their 40s and early 50s, also known as the sandwich generation, the dual responsibility of caring for their children and for their aging parents can bring unique health-related financial burdens. First and foremost, don’t neglect your own health as the demands of caring for others press on your time. Regular doctors visits and keeping up to date on screenings are as important to your financial health as they are to your physical well being.

Beyond that, people in their 40s and 50s can employ several smart financial strategies to help cover healthcare expenses now and in the future. One of the first may be to consider how to cover the costs of long-term care — both for yourself and for your aging parents.

There’s no doubt that long-term care costs can seem daunting. The annual cost of staying in a private nursing room was \$74,095 in 2005, according to the MetLife Mature Market Institute. “If you’re in a nursing home for a number of years, particularly with a chronic disease, such as Alzheimer’s, you can be in there for 10 years,” says Lewis Mandell, a finance professor at the University at Buffalo School of Management. “That can drain close to \$1 million of your net worth.” And receiving care in your own home can be even more costly.

Long-term care insurance provides one option for covering those expenses, but not everyone agrees on its value to wealthy retirees. Conventional wisdom was that people with more than \$1 million in liquid assets could afford to self-insure for long-term care. But today, many affluent people are considering long-term care insurance as part of their asset protection strategy.

Purchasing long-term care insurance while you are younger lowers the cost of premiums. It also

can help ensure that, should you need long-term care during your life, you will be able to have above-average care in your home or a private facility without depleting your estate. You may even be able to better leverage your investment by considering paying for the coverage up-front or over a shorter period.

If your parents are still in relatively good health, you also may want to explore the possibility of purchasing long-term care insurance for them. Although the premiums will be higher because they are older, having this coverage will protect their assets and yours. (See the sidebar, *Caregiving Strains*, right.)

### Readying Yourself for Retirement

Faced with longer life spans and spiraling healthcare costs, affluent baby boomers in their late 50s and early 60s are increasingly aware that their savings and investments might not afford them the comfortable retirement they have in mind. Especially if you have not incorporated healthcare costs into your financial planning previously, it’s important to build a plan now to address these costs.

Perhaps the largest potential medical cost most people face is not hospitalization, as many assume. Rather, it is the cost of medication and the possibility of an acute illness that will require long-term care. If you are 55 years old today, research by the Employee Benefits Research Institute shows that you can expect to pay \$210,000 for supplemental Medicare insurance and out-of-pocket medical expenses between the ages of 65 and 90.

Seven out of 10 affluent individuals plan to tap into Medicare benefits, according to Northern Trust research. But they should make plans for those medical expenses Medicare will not cover. “Medicare is pretty good at paying for hospital stays,” says Mandell, but it may be less effective at covering pharmacy costs, which represent the bulk of medical expenses for many retirees.

To help provide a remedy to the widely touted prescription drug coverage problem, the government introduced the new Medicare prescription drug coverage, also known as Part D, which is available to all Medicare beneficiaries. This coverage can be a cost-effective approach to



Photography by Ron Chappel/Getty Images

## Caregiving Strains

As Americans live longer, many of us eventually will care for elderly relatives. In 25% of U.S. households, at least one adult cares for an elderly person, according to the MetLife Mature Market Institute. In the next several years, the number of working caregivers will rise to between 11 million and 15.6 million — representing one in 10 employed workers.

Those costs can represent a significant drain on retirement funds. Over a lifetime, caregivers can lose more than \$660,000 in income and benefits, including \$566,000 in lost wages, according to a MetLife survey in 2001.

Juggling all the different responsibilities can be complex, notes Brent Neiser, director of collaborative programs for the National Endowment for Financial Education in Greenwood Village, Colo. People should take stock of all assets and study how they’re being managed, he says. Evaluate your parents’ current health and any chronic conditions. Obligations don’t end there, however. Medical care and cost considerations also should factor in for children, siblings and other relatives.

managing prescription costs, but it does leave some gaps in coverage. The widely cited “donut hole” in Part D coverage means Medicare does not cover drug expenditures from \$2,251 to \$5,100 per year.

For this reason, you may want to look at options outside Medicare. Insurance plans such as Medigap also can provide good coverage for prescription drugs. It is important to compare the features and costs of the Medicare prescription plans you are considering because the plans are not all alike.

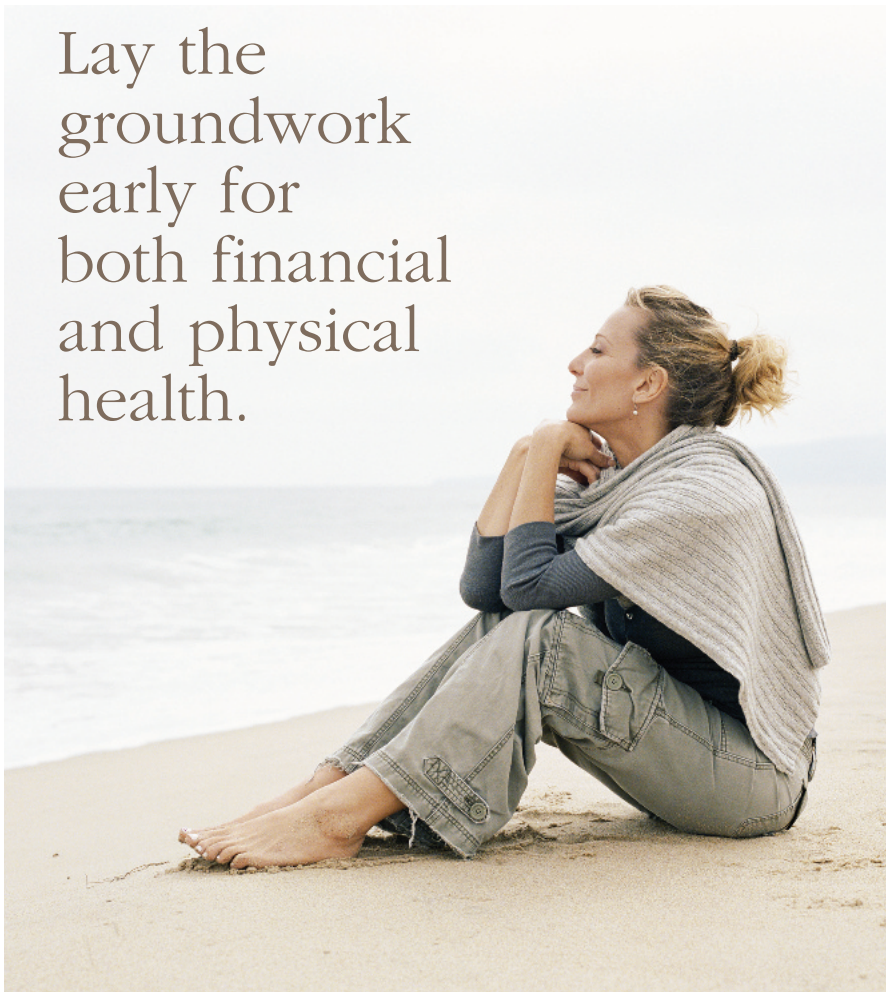
“One of the basic elements of insurance says if your downside liability is only a few thousand dollars, you may be better off self-insuring,” Mandell says. “Insure for the very large unexpected losses and don’t insure for the small anticipated losses.”

**Planning Is Key to Security**

Regardless of your age or income, including health considerations and healthcare costs in your financial planning for you and your family is an important part of ensuring your financial security. ■

\* According to Northern Trust’s Wealth in America survey in November 2005 of 1,014 households with investable assets of \$1 million or more.

Photography by Seth Joel/Getty Images



Lay the groundwork early for both financial and physical health.

# Holistic Health and Wealth Planning, Age by Age

	Financial Planning Considerations	Health Planning Considerations
<b>Getting Established</b> Ages 25-39; balancing act	<ul style="list-style-type: none"> <li>Purchase disability insurance.</li> <li>Establish a Health Savings Account, if appropriate.</li> <li>Save 10% to 20% of income in a tax-deferred plan.</li> <li>Establish a Roth IRA.</li> </ul>	<ul style="list-style-type: none"> <li>Learn to manage stress.</li> <li>Maintain a healthy lifestyle.</li> <li>Develop good communication with your partner.</li> </ul>
<b>Feeling the Squeeze</b> Ages 40-54; stress of caregiving	<ul style="list-style-type: none"> <li>Evaluate the purchase of long-term care insurance for yourself and your parents.</li> <li>Work with a retirement planner to establish how much you will need to meet your goals.</li> </ul>	<ul style="list-style-type: none"> <li>Make a commitment to self-care and stress reduction.</li> <li>Consider outsourcing or sharing family responsibilities; communicate with siblings.</li> </ul>
<b>Preparing for Retirement</b> Age 55+; changing lifestyle	<ul style="list-style-type: none"> <li>Sign up for Medicare Part D or purchase Medigap insurance for prescription drug coverage.</li> <li>Engage in scenario planning to manage cash flow; estimate living to age 90.</li> </ul>	<ul style="list-style-type: none"> <li>Create an active prevention plan for injury and illness.</li> <li>Take an integrated approach to your medical support.</li> </ul>

To provide you with information about important trends affecting health and wealth planning at each of stage of life, Northern Trust has partnered with PinnacleCare, a leader in personal healthcare advocacy, to develop “A Well Lived Life: Health and Wealth Planning, Age by Age,” which will be available in late October. To preorder your copy, please contact your Relationship Manager or send a request to [wealthmagazine@ntrs.com](mailto:wealthmagazine@ntrs.com).