

Plan Ahead For Healthcare Costs



If there's a single factor most likely to derail retirement plans, healthcare costs are probably it. There's no way to accurately predict what they will be, and although we know healthcare costs are rising, we don't know how much they will increase during our later years. Because of this uncertainty, planning for your future healthcare costs is a critical component of your overall retirement strategy.

For most of us, Medicare will be the primary source of healthcare insurance, making it very important to understand how this program and its supplemental parts work. Here are some things you should know:

- Unless you're already receiving Social Security benefits, you must apply for Medicare at age 65 if you're not working, don't have employer insurance or live abroad. After 65, you must enroll within eight months of stopping work – even if you continue to receive COBRA or retiree health benefits from an employer.
- Medicare takes everyone who qualifies based on making sufficient contributions during their working years – your health is not a factor.
- Medicare is not free. You pay premiums for coverage and copayments for most services.
- Medicare doesn't cover everything. Although it covers many health services, prescription drugs and medical equipment, there are significant gaps. For example, Medicare generally won't cover vision, hearing and dental care; nursing home care; or medical services received abroad.
- Medicare doesn't cover your dependents. No one under 65 can get Medicare except those who qualify through disability.
- There are four parts to Medicare: Part A helps pay for hospital or skilled nursing facility costs, home healthcare, hospice care and medicines administered to inpatients. Part B helps pay bills for physicians and outpatient services. Part C is a different way of receiving Medicare benefits – through private health plans known as Medicare Advantage plans. Part D helps pay the cost of prescription drugs. Be sure to find out what your different premiums, co-pays and out-of-pocket expenses are likely to be. Information also is available at www.medicare.gov.

WHAT IF YOU NEED LONG-TERM CARE?

Although we all want to age gracefully and spend our final years in our own homes, the reality is that nearly two-thirds of Americans over 65 will need long-term care services at some point, according to the U.S. Department of Health and Human Services. Since neither Medicare nor Medigap/Medicare Supplemental Insurance covers extended nursing home stays, it's up to us to prepare for the real possibility that we're going to have some significant costs in this area.

How significant? In 2009, the median cost of a private room in a nursing home was about \$205 a day. A 2010 report from Genworth put the median annual cost of care in a private room in

a nursing home at \$75,190. With numbers like those, it makes sense to consider long-term care insurance.

Premiums for long-term care insurance vary considerably, with your age and overall health the major factors determining the specific costs. The younger you are when you sign up, the lower your premium is likely to be.

INVESTIGATE HYBRID POLICIES

Of course, there's no way to know how long you might need long-term care, or even if you'll need it at all. This last possibility – that you won't need it and might therefore “waste” the premium – is a major reason why people don't buy long-term care insurance. If that's a concern, you may want to investigate new hybrid policies that combine features of life insurance and long-term care insurance. With a hybrid policy, if the insured never needs long-term care, then the life insurance portion of the policy provides benefits tax-free to the named beneficiary.

Long-term care insurance is a complicated subject. It's wise to talk things over with your financial advisor.

Kathy Greenaway is a Certified Financial Planner® with Raymond James Financial Services, Inc. located at First Dakota National Bank, 225 Cedar St., Yankton, SD. Securities offered through Raymond James Financial Services, Inc., Member FINRA/SIPC, and are not insured by FDIC, NCUA or any other government agency; are not deposits or obligations of First Dakota National Bank; are not guaranteed by First Dakota National Bank; and are subject to risks, including the possible loss of principal. First Dakota National Bank and First Dakota Brokerage Services are independent of Raymond James Financial Services.

■ by Kathy Greenaway

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