

RETIREMENT PLAN Update



Wealth
Management

Issue 1, 2023

Because the time is now ...

Planning for health care costs in retirement

It's important to include health care costs when planning for retirement.

For most people, a long, enjoyable retirement is the reward for a lifetime of work. Retirement also marks the transition from earning a living to living off money set aside for the non-working years.

Like others, you may have very clear ideas about how you want to spend your retirement. And you may have built your retirement planning around these goals. You may have estimated how much money you will need to set aside to enjoy the retirement lifestyle you envision. However, if your retirement planning does not adequately address the costs of your health care during retirement, you may need to revisit and reexamine your numbers.

People are spending more years in retirement. According to data from the Center for Retirement Research at Boston College,* the average retirement is expected to last 20 years in 2030 and 21 years in 2040. And while you should plan for routine health care costs for all these years in retirement, you should also consider the possibility of a serious accident or illness that could be very expensive. Planning for health care costs in retirement is a critically important issue that you need to address.

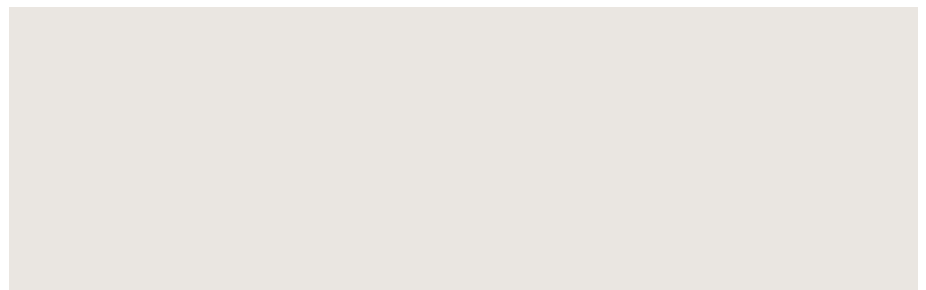
How expensive could health care costs be in retirement? Very



expensive, according to recent research. Using data from the Health and Retirement Survey and Medicare Current Beneficiary Survey, the research** shows that once households reach age 70, they will spend an average of \$122,000 in out-of-pocket medical costs over

the remainder of their lifetimes. However, an individual's personal health and the cost of medical care in the particular location where the individual resides can impact the amount that will be spent.

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What to do

Despite the prospective costs and the variables that may come into play, you can take certain steps that may help you control and manage health care costs during your retirement years.

Focus on prevention

During your working years, focus on improving your overall health by exercising, eating carefully and healthfully, and avoiding smoking and drinking alcohol to excess. Doing so helps reduce the risk of disease and aids your body in fighting off infection. It's also important to seek out preventative health services and stay up to date on vaccinations.

Look into long-term care insurance

A long-term care insurance policy provides money to pay for home health aides, nursing home care, and assisted living facilities. You will pay lower premiums for a policy if you buy it when you are young and healthy. The size of the daily benefit amount you select and the length of time you

are willing to wait to receive benefits will also have a big impact on the cost of the policy. Long-term care policies vary in the range of benefits they offer so you should work with a professional to compare different policies to find one that meets your needs.

Maximize your savings

Make an effort to save at higher rates during your working years to account for potential future increases in health care costs. If you are at a higher risk of chronic conditions because of your current health or your family's medical history, you should aim to maximize your savings. Likewise if your employer is unlikely to provide health care benefits in retirement.

Look into health savings accounts

A health savings account (HSA) can be used to pay for a variety of retirement-related health expenses. An HSA is essentially a medical savings account available to those enrolled in a high-deductible health plan (HDHP). Typically, HDHPs are

less expensive than traditional medical insurance plans but have higher deductibles and out-of-pocket maximums. HSAs offer several tax-saving features that can help defray these higher costs. For example, contributions are deductible, interest (or earnings) on contributions is tax deferred, and, as long as the medical expenses paid with HSA savings are "qualified" expenses for the individual, spouse, or dependents, HSA withdrawals are tax free.

Contributions can be kept as cash or invested in other options that may be available, such as stock or bond funds. Any money not spent during the year is rolled over for subsequent years. A relatively healthy individual could accrue a sizable HSA balance over a number of years. Consult with a tax professional before investing.

* Source: Estimates from the U.S. Bureau of Labor Statistics, Current Population Survey (1962-2017); and U.S. Social Security Administration, Social Security Trustees Report (2017).

** Source: The Lifetime Medical Spending of Retirees, John Bailey Jones, Mariacristina De Nardi, Eric French, Rory McGee, and Justin Kirschner, National Bureau of Economic Research Working Paper No. 24599, May 2018.

Should you carry debt into retirement?

If you are carrying a lot of debt, consider ways to eliminate or greatly reduce your total debt before retiring.

Too much debt at any stage of life can be a problem, but it can be particularly problematic for people who are close to retiring. Carrying a lot of debt into retirement can stress your finances. And for most people, using retirement savings to pay the interest on debt means that there will be less money available to meet their daily needs.

Of course, debt won't be a concern if you have considerable assets available. Or, if you enjoy working and expect to continue doing so, you may feel comfortable about carrying debt into your 60s. Perhaps you have planned ahead and are confident that you will have enough savings to cover your debt payments and still live comfortably throughout your retirement.

However, if you are carrying a lot of debt, you should consider whether it is likely to reduce your options when it comes to doing the things you hoped to do in retirement. It may make more sense in this situation to eliminate or greatly reduce your debt total before retiring.

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Tackling debt the smart way

Your first and most important step in reducing your debt burden is to identify the debts that are costing you most in interest payments. Typically, credit cards and consumer loans have the highest interest rates. Focus on paying those down first. While the money you put toward debt payoff would not be available to invest elsewhere, you would essentially earn a return equal to the interest you would otherwise pay.

Look at the pros and cons of paying off your mortgage

Your home mortgage is likely your biggest debt. It may also be the one debt you would most like to pay off before retiring. Before you go any further, check first to determine if there is a penalty for prepayment. Also review the loan amortization schedule so that you can figure out how much interest you'd save by accelerating your payments. Typically, the amount of each monthly payment that goes towards the principal increases—and the portion that represents interest decreases—as you get further into the loan term. So paying off the mortgage a few years early

may not save as much interest as you would hope. There are times when keeping a mortgage and allocating the cash to other investment opportunities may make more sense. Your financial professional can help you weigh the options and decide on a course of action.

Where do you find the money?

It may seem overwhelming at first to even consider ways to reduce your debt while still saving for your retirement. However, you may have more options than you realize. Are there ways that you can simplify your lifestyle? Could you downsize to a smaller and less expensive home? Can you consider holding on to your vehicles for a little longer than you have in the past? Being proactive now about finding ways to reduce your expenses before you retire might go a long way toward freeing up the cash you need to pay down your debts. Taking action now to beef up your savings can improve your overall financial picture in the years ahead.

And be sure to talk to your financial professional for insights on steps you can take to lay the foundation for a more secure financial future.



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