3 Reasons Retirees Might Spend More on Healthcare Than Expected

By Maurie Backman – Jan 20, 2024 at 6:36AM

Don't be shocked if your costs are higher than anticipated.

There's a reason people are commonly advised to set themselves up with a decent amount of income in retirement. While some of your expenses, like commuting to an office, may disappear once you're no longer working, a lot of the bills you're facing as a member of the workforce might stay with you.

For example, you'll still need a roof over your head as a retiree. And you'll need to pay for utilities, food, and entertainment.

You'll also need to factor the cost of healthcare into your retirement budget. But that expense might end up exceeding your expectations -- and not in a good way. Here are some of the reasons why.

1. Rising Medicare costs

One big misconception about Medicare is that coverage is free. Not only is that not true, but the cost of that coverage tends to rise over time.

As an example, last year, the standard monthly premium for Medicare Part B was $169.90. This year, it's $174.70. Meanwhile, the annual Part B deductible rose from $226 in 2023 to $240 in 2024.

These might seem like small increases, but over time, they can add up. And remember, it's not just Part B that's risen. The deductible and coinsurance rate Medicare enrollees are subject to under Part A are up this year, as well, and that trend is likely to continue.

2. Non-covered Medicare services

Many Medicare enrollees are surprised to learn that certain essential services aren't eligible for coverage. These include dental care, eye exams, and hearing aids.

In most cases, Medicare Advantage plans will cover these expenses. But many seniors avoid Medicare Advantage because it can be limited in terms of in-network providers. Also, it can sometimes be more expensive. However, if you're used to having your dental cleanings and eye exams covered and that's no longer the case in retirement, it might throw your budget for a loop.

3. Long-term care

Many seniors end up needing long-term care, whether in the form of a home health aide or assisted living facility. Not only can that cost be significant, but Medicare, as a matter of course, won't cover long-term care.

There's actually a reason for that. Medicare is set up to cover expenses that are medical in nature. Long-term care is often custodial in nature, meaning it relates to aid with everyday activities, like dressing, bathing, and getting around the home.

Don't set yourself up to struggle

It's important not to get caught off guard by healthcare expenses in retirement. To that end, read up on them and, also, save for them.

One option may be to fund a health savings account (HSA) during your career and reserve that money for retirement. HSA funds don't have to be spent on a yearly basis, so you can invest your plan balance with the goal of carrying it forward.

Putting long-term care insurance in place is another option to consider if you're worried about having to pay for that care yourself. Just make sure to research coverage options thoroughly, because the cost of that insurance can be significant. There's also an optimal window to be signing up for that coverage, and it's generally in your 50s. (*Meredith's note: Many people can become approved for the insurance in their 60's if in reasonably good health.)

All told, it's common for retirees to spend more on healthcare than expected. But if you know what to expect, those higher costs won't necessarily have to be a source of financial stress.