Article

Should You Use a Retirement Planning Calculator to Estimate Health Care Costs?

While some web-based tools will help you reach your financial goals, others could confuse them.

By Matt Alderton

Only one-third of older Americans have taken steps to save money they'll need in retirement for out-of-pocket medical expenses, according to AARP. But when it comes to retirement and good living, it's important to save for retirement—especially for health care. Although budgeting for housing and other activities is a great start, aging often means higher health care expenses. Not planning for these costs could derail some of your plans if you have to reallocate funds you set aside for, say, a trip overseas, to cover an emergency surgery. Luckily, there are a number of retirement planning calculators designed to help you figure out how much you might need.

So how much do you need? The average couple retiring today at age 65 will need $260,000 to cover their health care costs in retirement. But depending on your age, income, health, location and Medicare eligibility, that number could be much different.

Online calculators that estimate your future health care costs can help you set an appropriate savings goal. However, they can be unreliable since they don't always ask enough questions. Many, for example, do not take into account long-term care, the cost of which can quickly break your health care budget. On average, a semiprivate room in a skilled nursing community costs more than $82,000 per year. And if you want a private room, it will cost you in excess of $92,000 per year.

The lesson: Before using a health care calculator, make sure you know what it is and isn't calculating. Start by reading the following reviews of popular online tools. Then run your numbers and consult a financial adviser to make a health care savings plan that's tailored to you.

Tool: AARP Health Care Costs Calculator

Description: AARP created its calculator to help the large number of Americans who have yet to budget for health care in retirement. Enter your age, gender, height, weight, life expectancy and where you plan to live in retirement, then select what medical conditions you have or might have in the future. The result is a personalized cost estimate that includes your total health care costs, the amount that will be covered by Medicare and the amount you'll need to save for out-of-pocket expenses.

Diagnosis: AARP's calculator is a best-in-class tool for estimating your health care costs and Medicare benefits; for a more accurate financial picture, however, you'll also need to take into account your long-term care costs, which aren't included in AARP's calculations.

Tool: HealthView Advisor Health Care Cost Projector

Description: This estimator asks for basic information about you and your spouse, if applicable. Just choose your gender, age (up to age 70), retirement location and projected retirement income, then indicate if you have any of six critical health conditions: high blood pressure, high cholesterol, cardiovascular disease, type 2 diabetes, tobacco use or cancer. It then asks you to indicate your current income and savings. Click "Submit," then you will be prompted to enter your contact information to receive a downloadable, free report that will detail the average expected retirement health care costs based on the information you entered. Uncheck the boxes if you don't want to share your information with a financial professional or be conacted by HealthView.

Diagnosis: Because the tool makes you go one step further to get a health care cost estimate, it's not the easiest or quickest option. But HealthView's calculator does give you a good idea of where your health care dollars could go.

Tool: ICMA-RC Retiree Health Cost Estimator

Description: This estimator uses your current health status and available savings to forecast your future health care costs. It takes into account your age, gender, height, weight, marital status, location and Medicare eligibility, as well as whether you smoke, if you have a chronic disease and the number of ongoing prescriptions you receive. Uniquely, it also takes into account whether you currently have health care savings, and if so, how much.

Diagnosis: Again, this calculator doesn't include long-term care. Still, ICMA-RC's tool paints a more holistic picture than most others since it includes both your projected costs and your projected resources. Playing with the calculator's various inputs makes it easy to see the positive impact of health savings.

Tool: Fidelity Health Care Cost Estimator

Description: Fidelity's estimator is an elegant tool that's easy to use and understand. Just choose your gender, current age, retirement age and life expectancy to receive an estimate that includes the total amount of health savings you'll need in retirement as well as the projected annual cost for your health care.

Diagnosis: Although it isn't as thorough as some other tools—and doesn't include over-the-counter medications, dental services or long-term care—the superior design and presentation of Fidelity's calculator makes it a pleasure to use. Also, Fidelity conducts one of the industry's go-to surveys on annual health care costs in retirement, so the calculations are informed by credible data.

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