Making Sense of Healthcare Options in Retirement

By James Landry

A healthy retirement requires more than a well-diversified portfolio. It also requires a plan to manage healthcare costs, navigate Medicare, and prepare for potential long-term care needs.

For many retirees, healthcare is their largest expense. Medicare provides an important safety net, but it does not cover every medical cost, and out-of-pocket expenses can add up quickly.

A recent survey by eHealth found that many Medicare beneficiaries misunderstand their coverage:

- 88% incorrectly believe Original Medicare (Parts A and B) caps annual out-of-pocket costs
- 63% do not realize they typically pay 20% of covered charges under Original Medicare alone

How are healthcare costs divided?

According to Fidelity, retirees' healthcare spending breaks down roughly as follows:

- 44% — Medicare Part B and D premiums
- 47% — medical expenses (co-payments, deductibles, hospital visits)
- 9% — prescription drugs

Healthcare expenses are often unpredictable. A serious illness, injury, or extended nursing facility stay can strain your finances. That's why we view healthcare planning as an integral part of your overall financial strategy, not a separate exercise.

Fortunately, you can prepare. Understanding Medicare options, incorporating healthcare costs into retirement projections, evaluating long-term care strategies, and making thoughtful use of tax-advantaged accounts such as Health Savings Accounts (HSAs) can all improve your financial flexibility and peace of mind.

Your options under Medicare

You become eligible for Medicare at 65, with enrollment occurring within a 7-month window around your birthday. Missing that window can result in a penalty, unless you have coverage through a qualifying employer-sponsored plan.

Here are the ABCs (and D) of Medicare:

- Part A — Hospital insurance (free for most)
- Part B — Medical insurance
- Part D — Prescription drug coverage
- Medigap — Supplemental insurance
- Part C — Medicare Advantage plans

Medicare provides generous hospital coverage, but you'll still owe some out-of-pocket costs. For a hospital inpatient stay in 2026, you pay:

- $1,736 deductible per benefit period
- $0 for the first 60 days (after the deductible)
- $434 per day for days 61–90
- $868 per "lifetime reserve day" after day 90 (up to 60 days total over your lifetime)
- All costs for each day after day 150

Nursing care support is more limited. Traditional Medicare covers only a skilled facility, medically necessary treatment, or rehabilitation from licensed nurses or therapists — and only after a qualifying hospital stay of at least three consecutive days. In 2026, you pay:

- $0 for the first 20 days
- $217 per day for days 21–100
- All costs after day 100

Medicare does not cover custodial care — everyday help with bathing, dressing, bathroom use, or eating.

Medical costs under Part B

The Part B annual deductible is $283. After that, you'll pay a 20% copay on most Medicare-approved services and items.

Medigap

When Original Medicare coverage ends, a Medigap policy can help bridge the gap. Medigap plans are standardized in most states (Plans A, B, D, G, K, L, M, and N), so coverage is the same regardless of which company sells it — though prices vary.

Once purchased, a Medigap policy renews automatically each year and can only be canceled if you stop paying premiums, weren't truthful on your application, or your insurer becomes insolvent.

Advantages of traditional Medicare with Medigap:

- No network restrictions — see any doctor or specialist (no referral needed) at any hospital that accepts Medicare
- Rarely requires prior authorization for medically necessary care
- Coverage nationwide — useful if you split time between states
- Greater predictability around premiums and costs

Trade-offs:

- No out-of-pocket cap under Parts A and B alone — Medigap is needed to limit that risk
- Requires a separate Part D purchase for drug coverage
- Dental, vision, and hearing aren't covered

A private alternative: Medicare Advantage (Part C)

Part C combines Parts A and B into a single plan offered by private insurers, subject to Medicare approval, and often includes Part D drug coverage plus routine dental, vision, and hearing benefits, depending on the plan. With Part C, you don't need a Medigap policy.

Benefits:

- Convenience of in-network coverage through one company
- A cap on annual out-of-pocket costs
- No need for Medigap
- Added perks such as dental, vision, hearing, or fitness benefits, depending on the plan
- Typically lower monthly premiums

Drawbacks:

- In-network restrictions
- Possible pre-approval requirements
- Specialist referrals may be required
- Possible co-pays
- Plan details can change annually

Open enrollment

Each year, open enrollment runs October 15 through December 7, allowing you to:

- Join, drop, or switch Medicare Advantage plans (with or without drug coverage)
- Switch between Original Medicare and Medicare Advantage
- Join, drop, or switch a Part D drug plan if you're in Original Medicare

We are sometimes asked, "Can't I just keep my current plan?" Usually, yes. But if you're in a Medicare Advantage or Part D plan, review the "Evidence of Coverage" and "Annual Notice of Change" your plan sends each year to confirm it still meets your needs for 2027. If you're satisfied and your plan is still offered, renewal is typically automatic — the same is true if you're on Original Medicare (A and B) or Medigap.

Exploring long-term care

Long-term care is often an overlooked retirement expense. Unlike traditional medical care, it covers help with daily activities such as bathing, dressing, eating, and managing medications.

Planning ahead can protect both your finances and your independence. Start by understanding what Medicare does and doesn't cover, then consider how you'd fund extended care — savings, long-term care insurance, hybrid policies, or a combination. It's also worth discussing your wishes with loved ones and making sure key legal documents are in place.

HSAs

A Health Savings Account (HSA), available when paired with certain high-deductible health plans, offers useful flexibility:

- Funds can pay for a wide range of qualified healthcare costs
- Funds can also pay Medicare Part B, C, and D premiums (but not Medigap premiums)
- After age 65, you can withdraw for non-medical expenses penalty-free, though ordinary income tax still applies — similar to a traditional IRA

Because of this, an HSA can serve two purposes at once: a retirement savings vehicle and a source of tax-free funds for qualified medical expenses — potentially preserving other retirement assets and adding flexibility for future healthcare needs.

Bottom Line

No one can predict future healthcare needs with certainty, but proactive planning can reduce surprises and help you focus on what matters most — enjoying retirement with confidence.

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