

Don't underestimate health care costs when planning for retirement. It's likely to be one of your largest expenses, especially as life-spans extend.

According to the [2025 Fidelity Retiree Health Care Cost Estimate](#), the average 65-year-old might need \$172,5000 to cover health care expenses in retirement. That number could go even higher, depending on your health and longevity.

Thankfully, [Medicare](#) provides essential health insurance coverage and can help limit the cost of care. But Medicare is notoriously complex, creating its own planning challenges, from choosing supplemental insurance to understanding income-based costs.

Here's what you need to know and how Medicare should factor into your retirement planning.

## What Is Medicare?

In a nutshell, Medicare is a federal health insurance program for people age 65 and older or those with a qualifying disability.

Similar to Social Security, you generally need to have worked and paid Medicare taxes for at least 10 years or 40 quarters to be eligible. Unlike Social Security, however, income doesn't factor into coverage — though it can impact how much you pay in premiums and whether you qualify for assistance programs.

These income-based costs and eligibility nuances can affect your retirement budget, so understanding the basics of is a key part of planning for long-term financial security.

## What Costs Does Medicare Cover?

Medicare is divided into [four parts](#) that cover different [aspects](#) of health care, from preventative screenings to end-of-life support. Knowing what each part covers — and, just as important, what it doesn't — can help you plan for potential out-of-pocket expenses, figure out the nuances of prescription drug coverage and avoid surprises that could disrupt your retirement finances.

Let's dig into the details:

- **Part A:** This segment covers skilled nursing facilities, in-patient hospital stays, hospice care and aspects of home care (though not long-term care, unfortunately). If you paid payroll taxes as part of your job for the required amount of time, there's no premium, though you'll need to pay co-insurance and a deductible of \$1,676 in 2025.
- **Part B:** This part pays for outpatient care, doctor's office visits and other aspects of home care. This part comes with a premium of \$185 a month and a \$257 deductible. Once you

hit the ceiling, Medicare pays for 80% of your expenses — if you don't have supplemental coverage or Medicare Advantage.

- **Part C:** Also known as [Medicare Advantage](#), these are privately administered (rather than government run) PPO or HMO health insurance plans. To qualify, you need to be enrolled and paying premiums on Parts A and B. The advantage of part C is that it simplifies health care management, offers additional benefits like vision and dental (which aren't covered by Parts A and B), limits out-of-pocket spending, can cover more prescription drugs, and even provides wellness programs.
- **Part D:** This is standalone prescription drug and vaccine coverage offered by private insurers. Those with Medicare Advantage likely won't need Part D, though those with regular Medicare should consider it since those programs only have limited prescription coverage. The deductible is roughly \$46 this year with a maximum out-of-pocket cost of \$2,000 (though this will rise in the coming years).

## Enrolling in Medicare: Miss the window, Pay the Price

For those aging into Medicare, it's best to enroll within the [Initial Enrollment Period \(IEP\)](#). That's a seven-month period covering the three months before, the month of, and the three months after your 65<sup>th</sup> birthday. To have coverage start the month of your birthday, you need to enroll at least a month before.

If avoiding a hefty hospital bill is the carrot to incentivize enrollment during the IEP, financial penalties are the stick.

The cost of late enrollment includes an increase in monthly premiums for Part B (10% of the premium for each 12 months delayed) and Part D coverage (1% of the national base beneficiary for each month delayed).

By 2025 premiums, this would translate to almost \$23 more every year for *the rest of your life*, which could add up for those on a tight fixed budget.

There are exceptions, though. If you're still working and have medical coverage through your employer, you don't have to enroll during the IEP. But there's a catch: Your employer must have at least 20 employees covered under its medical plan for this exemption, so the [16% of Americans](#) who work for employers with fewer than 20 workers should enroll during the IEP.

If you're 65 or older and still working for an organization with at least 20 employees, Medicare doesn't offer primary coverage. Take note, however, that employers can't terminate employment or coverage to avoid covering Medicare-eligible employees. Companies also can't offer incentives to enroll in Medicare for primary coverage instead of the employer insurance plan.

## How Much Does Medicare Cost?

While Medicare isn't directly correlated to income (unlike Social Security), high earners will pay more in premiums due to a [surcharge](#) known as the [Income-Related Monthly Adjustment Amount \(IRMAA\)](#). Income reflects your [modified adjusted gross income \(MAGI\)](#), which includes wages, Social Security benefits, capital gains, and [401\(k\)](#) distributions, among other sources of income.

This determines what, if any, surcharge you pay for coverage. With Part B, for example, monthly premiums are adjusted via this income scale:

| <b>Part B — For Individuals</b>                       | <b>Part B — For Married Couples Filing Jointly</b>    |
|-------------------------------------------------------|-------------------------------------------------------|
| <b>\$185:</b> For MAGI of \$106,000 or less           | <b>\$185:</b> For MAGI of \$212,000 or less           |
| <b>\$259:</b> For MAGI from \$106,001 to \$133,000    | <b>\$259:</b> For MAGI from \$212,001 to \$266,000    |
| <b>\$370:</b> For MAGI from \$133,001 to \$167,000    | <b>\$370:</b> For MAGI from \$266,001 to \$334,000    |
| <b>\$480.90:</b> For MAGI from \$167,001 to \$200,000 | <b>\$480.90:</b> For MAGI from \$334,001 to \$400,000 |
| <b>\$591.90:</b> For MAGI from \$200,001 to \$500,000 | <b>\$591.90:</b> For MAGI from \$400,001 to \$750,000 |
| <b>\$628.90:</b> For MAGI of \$500,000 or more        | <b>\$628.90:</b> For MAGI of \$750,000 or more        |

Part D premiums also vary depending on income, although the amounts are much lower, maxing out at just over \$1000 annually.

The costs of Medicare Advantage premiums, deductibles and co-insurance will vary alongside coverage, so it's important to work with an adviser to determine which (if any) plan is right for your needs.

## What Does Medicare Mean for My Retirement Planning?

Because Medicare presents a sizable expense (and can prevent even larger out-of-pocket bills) in retirement, it's important to consider how much coverage you need and how much it will cost, inclusive of premiums, deductibles and co-insurance. Budgeting with this information in mind can make a big difference when on a fixed income.

With sufficient planning, you can set up tax-exempt income streams that can lower your Medicare bill by lowering your MAGI.

Because withdrawals from [Roth IRA](#) accounts, [health savings accounts](#) and cash value life insurance contracts\* do not count toward MAGI — nor do [qualified charitable contributions](#)— using these avenues as income streams or tax reduction strategies\*\* in retirement can lower your accompanying IRMAA surcharge.

A financial adviser can also work with you to determine which Medicare Advantage and supplemental insurance plans align with your fixed income streams and your likely health needs in your golden years.

Because Medicare doesn't cover long-term expenses, for example, an adviser can recommend a supplemental [long-term care plan](#) that can fill that coverage gap. Remember, taking action *before* you need this coverage is an essential part of retirement preparedness.

## Your Medicare Checklist

As you plan for Medicare in retirement, make sure you've done your homework and consulted [experts](#) who can help assess what makes the most sense for you. Start by:

- o Spending two to three months reading up on Medicare plans and programs to better understand the program (including Kiplinger's excellent [Medicare reporting](#)).
- o Consult with an adviser on whether a Medicare Advantage plan makes sense for you and whether your plan should include Part D prescription coverage.
- o Set a reminder to enroll within your IEP, if needed.

*\* It is important to keep in mind that the primary purpose of cash value life insurance is death benefit protection for your beneficiaries. Loans and withdrawals reduce the life insurance policy's cash value and death benefit and increase the chance that the policy may lapse. If the policy lapses, matures, is surrendered or becomes a modified endowment, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distributions of policy cash values.*

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