ADVANCED PLANNING

Insights & Ideas

Retirement Rx: Mastering Health Care Costs

While most Americans carefully budget for housing, food, and transportation in their golden years, health care costs are often either underestimated or even worse entirely ignored. The truth is that for the average American health care costs tend to be one of the top expenses in retirement, along with housing, transportation, and food costs.[1] Many Americans believe that somehow, they will have no health care expenses in retirement, as they mistakenly believe that Medicare pays for 100% of health care costs in retirement. This unfortunately is a gross misunderstanding of the realities of health care expenses. According to the EBRI (Employee Benefit Research Institute), Medicare is estimated to only cover about 62% of health care costs in retirement on average.[2] Further yet, a Fidelity study finds that a typical healthy 65-year-old couple may need $330K saved up just to pay for health care expenses in retirement.[3] As a result, no retirement income plan can be considered complete without addressing health care expenses in retirement.

It may be more helpful to think about health care costs in retirement as an ongoing annual expense averaging approximately $14,000 per year for a healthy 65-year-old couple.[4] However, it is also important to understand that this will vary widely depending on the type of health care insurance coverage selected, health status, and prescriptions drugs required. Another compounding factor is that health care costs tend to inflate at a higher rate than average. It is estimated that health care expenses will continue to inflate at a rate two times faster than overall U.S. inflation.[5] Additionally, the relative amount we spend on health care typically increases significantly at older ages, as demonstrated in David Blanchett's concept of the "Retirement Spending Smile." If you couple all of these issues along with the longer life expectancy of the typical American, health care expenses can be a significant tail end risk, and as such no retirement income plan can be considered complete without addressing health care costs.

Medicare

Medicare is the default health care insurance system for most Americans over the age of 65, and it has multiple parts, and methods of coverage. The traditional method of coverage would generally involve enrolling in Medicare Part A (hospital insurance) for inpatient services, Medicare Part B (medical insurance) for outpatient services. Most enroll in Medicare Part D (prescription coverage) for coverage for prescription medications, and many desire additional coverage to fill in some of the gaps in coverage by enrolling in a Medicare Supplement Plan, which are also sometimes referred to as Medigap plans.

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An alternative to this traditional method has been gaining ground for years, Medicare Part C or more often referred to as Medicare Advantage Plans. Enrollment in Medicare Advantage Plans has jumped from 19% of Medicare enrollees in 2007 to 55% in 2026.[6] Medicare Advantage Plans are offered by private insurance companies, and include hospital insurance, medical insurance, and usually prescription coverage. They may also offer some additional benefits that Original Medicare doesn't cover, such as expanded vision, hearing, and dental services. In many circumstances, Medicare Advantage Plans may have lower out-of-pocket costs. For 2026, the maximum out-of-pocket limit for hospital and medical coverage under a Medicare Advantage Plans is $9,250 for in-network services. However, these plans generally require that you work with providers that are in their network and may require approval before covering certain drugs or services. You will still have to pay the monthly Part B premium and generally will have to pay the plan's premium in addition, but some plans may have no additional premium.

Medicare Part A

Medicare Part A (Hospital insurance) primarily helps cover inpatient care in hospitals. This includes rooms, meals, nursing, hospital services, and supplies. In addition, Part A may cover limited skilled nursing care, and hospice care for those who are terminally ill. There generally are no premium costs for Medicare Part A (Hospital insurance), assuming you have paid enough years of payroll taxes (40 quarters or 10 years). However, this does not mean that you can receive hospital care without expenses, as you would have to pay the deductible of $1,736 in 2026. After 60 days of hospital care, you would have to pay a daily copayment of $434 per day in 2026, after 90 days of hospital care, you would have to start using your pool of 60 lifetime reserve days and pay the corresponding coinsurance of $868 per day in 2026, after the 60 lifetime reserve days are used up all additional hospital care would be the individual's responsibility.

Medicare Part B

Medicare Part B (Medical insurance) helps pay for health care services other than inpatient hospital care. This may include doctor's visits, preventive services like screenings and vaccinations, lab tests, and durable medical equipment. Part B is essential for covering ongoing medical needs and preventive care throughout retirement. Unlike Part A, there are premium costs associated with Medicare Part B (Medical insurance). However, not all of us pay the same amount. Those with lower levels of Modified Adjusted Gross Income (MAGI) pay the standard premium of $202.90 per month per person in 2026. However, those with higher levels of MAGI can pay significantly more. There is also an annual deductible of $283 in 2026, and after that you are in a sharing arrangement, where you are responsible for a 20% coinsurance payment, and the other 80% is generally covered.

IF YOUR INCOME IN 2024 WAS		YOUR 2026 MONTHLY
FILE INDIVIDUAL TAX RETURN	FILE JOINT TAX RETURN	PART B PREMIUM IS*
$109,000 or less	$218,000 or less	$202.90
above $109,000 up to $137,000	above $218,000 up to $274,000	$284.10
above $137,000 up to $171,000	above $274,000 up to $342,000	$405.80
above $171,000 up to $205,000	above $342,000 up to $410,000	$527.50
above $205,000 up to $499,999	above $410,000 up to $749,999	$649.20
Greater than or equal to $500,000	Greater than $750,000	$689.90

*CMS. 2026 Medicare Parts A & B Premiums and Deductibles, Fact Sheet, November 14, 2025.

Medicare Part D

Medicare Part D is the prescription drug coverage component of Medicare and helps pay for prescription medications. Medicare Part D plans are offered by private insurance companies and approved by Medicare. The coverage does vary depending on the specific plan chosen, including which drugs are covered and at what cost. Enrolling in a Part D plan can provide significant savings, especially for individuals who take multiple or high-cost prescriptions. However, there are premium costs associated with Medicare Part D (prescription coverage), which average $36 per month per person.[7] However, like with Medicare Part B (medical insurance), not all pay just the base premium, as those with higher levels of MAGI can pay significantly more. There is also an annual deductible, which can be as high as $615 in 2026. Once you meet your deductible, you again are in a sharing arrangement, where you are responsible for a share of the cost, usually around 25%. In 2026, this sharing arrangement ends after you have accumulated $2,100 in total out of pocket drug costs. After you reach $2,100 in out-of-pocket drug costs, you enter catastrophic coverage, where you pay nothing for covered Part D prescriptions for the rest of the year.

IF YOUR INCOME IN 2024 WAS		YOUR 2026 MONTHLY
FILE INDIVIDUAL TAX RETURN	FILE JOINT TAX RETURN	PART D IRMAA IS*
$109,000 or less	$218,000 or less	N/A
above $109,000 up to $137,000	above $218,000 up to $274,000	$14.50
above $137,000 up to $171,000	above $274,000 up to $342,000	$37.50
above $171,000 up to $205,000	above $342,000 up to $410,000	$60.40
above $205,000 up to $499,999	above $410,000 up to $749,999	$83.30
Greater than or equal to $500,000	Greater than or equal to $750,000	$91.00

*CMS. 2026 Medicare Parts A & B Premiums and Deductibles, Fact Sheet, November 14, 2025.

As you can see managing taxation in retirement can be important for many reasons, including staving off higher medical costs in retirement. Planning may include creating potentially tax-free sources of income in retirement that may be used to pay for health care expenses, such as income from Roth IRAs, HSAs (Health Savings Accounts), and in some cases leveraging life insurance concepts to supplement retirement income. The day-to-day tax management is also important, such as leveraging tax-efficient investments, executing tax loss harvesting, and in some cases making charitable gifts through qualified charitable distributions (QCDs) from IRAs.

Medicare Supplement Plans (Medigap Plans)

Many are not comfortable with having just Medicare Part A (Hospital insurance), Medicare Part B (Medical insurance), and Medicare Part D (Prescription coverage), and wish to have additional coverage to fill in some of the gaps in coverage by enrolling in a Medicare Supplement Plan (Medigap plan). A Medicare Supplement plan, also known as a Medigap plan, is private insurance designed to help fill many of the coverage gaps left by Medicare Parts A and B. These plans often help pay for out-of-pocket costs such as copayments, coinsurance, and deductibles that Medicare does not fully cover. Depending on the specific Medigap plan chosen, coverage may also include additional benefits like foreign travel emergency care. These plans are standardized and regulated, so the basic benefits of each plan type are the same, regardless of which company offers them. Each company determines their own premiums associated with their plans, and prices can vary greatly from insurance company to insurance company,

and from one part of the country to another. Medicare Supplement Plan G is one of the most comprehensive plans, and also the most popular Medigap plan for newly eligible enrollees. The national average cost for Plan G is about $2,600 per year per person.[8] However, even with this additional coverage there may be out-of-pocket costs for items such as your share of prescription cost, dental, vision, and hearing care.

	Medicare Supplement Insurance (Medigap) Plans									
Benefits	**A**	**B**	**C**	**D**	**F***	**G***	**K**	**L**	**M**	**N**
Part A coinsurance and hospital costs (up to an additional 365 days after Medicare benefits are used)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Part B coinsurance or copayment	✓	✓	✓	✓	✓	✓	50%	75%	✓	✓***
Blood benefit (first 3 pints)	✓	✓	✓	✓	✓	✓	50%	75%	✓	✓
Part A hospice care coinsurance or copayment	✓	✓	✓	✓	✓	✓	50%	75%	✓	✓
Skilled nursing facility care coinsurance	X	X	✓	✓	✓	✓	50%	75%	✓	✓
Part A	X	✓	✓	✓	✓	✓	50%	75%	50%	✓
Part B deductible	X	X	✓	X	✓		X	X	X	X
Part B excess charge	X	X	X	X	✓	✓	X	X	X	X
Foreign travel emergency (up to plan limits)	X	X	80%	80%	80%	80%	X	X	80%	80%
							Out-of-pocket limit in 2026**			
							$,8000	$4,000		

* Plans F and G also offer a high-deductible plan in some states. You must pay for Medicare-covered costs (coinsurance, copayments, and deductibles) up to the deductible amount of $2,950 in 2026 before your policy pays anything. (You can't buy Plans C and F if you were new to Medicare on or after January 1, 2020.)

** For Plans K and L after you meet your out-of-pocket yearly limit and your yearly Part B deductible ($202.90 in 2026), the Medigap plan pays 100% of covered services for the rest of the calendar year.

*** Plan N pays 100% of the Part B coinsurance. You must pay a copayment of up to $20 for some office visits and up to a $50 copayment for emergency room visits that don't result in an inpatient admission.

"Medicare & You, The official U.S. Government Medicare handbook", by the U.S. Department of Health & Human Services, Center for Medicare & Medicaid Services, September 2006, page 80, Section 5: Medicare Supplement Insurance (Medigap).

As mentioned earlier, a reasonable expectation for health care costs in retirement for the average 65-year-old with traditional coverage, including a Medicare Supplement Plan (Medigap plan) is around $7,000 per year, and a reasonable expectation for healthcare costs in retirement for a healthy 65-year old without a Medicare Supplement Plan (Medigap Plan) under a Medicare Advantage Plan is around $5,000 per year.[9]

Coverage	Average Annual Cost
Part A - Hospital Insurance	$0 Premium Cost
Part B - Medical Insurance	$2,435 Premium Cost
Part D - Prescription Coverage	$432 Premium Cost
Medigap - Additional coverage to fill gaps	$2,600 Premium Cost
Out-of-pocket - Rx, hearing, vision, dental, etc.	$1,533
Total – Per Person	**$7,000**

Important Dates to Consider

Most Americans can't enroll into Medicare until they approach the age of 65. The "Initial Enrollment Period" is really a seven-month period, including the three months prior to the month you turn 65, of course the month you turn 65, and the three months after the month you turn 65. If you are still working and covered under a comprehensive health care plan through your employer, you may want to evaluate whether enrolling in Medicare during your initial enrollment period is the best option. After all there are premium costs associated with Medicare Part B, Medicare Part D, Medicare Supplement Plans, and Medicare Advantage Plans, and if your current health care plan through your employer is comprehensive enough, it may not make sense to pay the additional costs of Medicare. That being said, Medicare Part A is generally available without a premium cost. However, it is important to keep in mind, if you would like to contribute to an HSA, if you enroll in Medicare Part A, you will no longer be able to contribute to that HSA. This can also be an important consideration when applying for Social Security benefits, because signing up for Social Security benefits when you are 65 or older will automatically enroll you into Medicare, and cause you to lose the ability to contribute to an HSA.

If you decide to enroll in Medicare after your initial enrollment period, you will be provided a "Special Enrollment Period" upon losing your employer sponsored health care coverage. The special enrollment period allows you to enroll into Medicare during an eight-month period beginning the month after employment ends. If you fail to enroll during the "Special Enrollment Period", you will not be able to enroll into Medicare until the "General Enrollment Period", which is between January 1 and March 31 each year. If there is a 12-month gap in coverage, Medicare will charge a 10% late enrollment penalty, which will last for the rest of your life.

It's important to be diligent regarding enrolling in a Medicare Supplement Plan (Medigap plan), as there are situations where you can either be asked to pay more than the standard premium or be denied coverage altogether. This can't happen if you apply for a Medicare Supplement Plan (Medigap plan) during the Medicare Supplement open enrollment period, which is the six-month period starting the month you enroll in both Medicare Part A and Medicare Part B. During this period, the policy cannot be underwritten regardless of pre-existing conditions, and you cannot be denied coverage or forced to pay a higher premium. However, if you enroll after this period, the policy can be underwritten, and you may be running the risk of paying more than the standard premium or being denied coverage.
Additionally, each fall there is an "Annual Enrollment Period", which stretches from October 15 to December 7, during which you can change your coverage for the next year from Traditional Medicare to Medicare Advantage and vice versa, or simply change from one Medicare Advantage plan to another

and electing or switching between Medicare Part D prescription drug plans. The Medicare Annual Enrollment Period serves as a window for beneficiaries to review and make changes to their Medicare coverage to better suit their current health and financial needs.

Prudential is here to support you

In the journey toward a secure and fulfilling retirement, planning for health care expenses isn't just a financial strategy, it's an act of self-care, as no retirement income strategy can be considered complete without addressing health care costs. By proactively planning for these essential costs, retirees can safeguard their well-being. Integrating health care expenses alongside other essential expenses as a core component of your retirement blueprint allows you to align reliable income sources with your most critical needs, and if there are insufficient sources of reliable income, consider methods of converting capital into a reliable source of income to fill the gap. Ultimately, a well-crafted approach to health care expenses transforms uncertainty into confidence, empowering you to enjoy the retirement you've worked so hard to achieve. As you discuss your retirement plans with your financial professional, remember that Prudential is here to support you and help you Protect Your Life's Work®.

[1]Bureau of Labor Statistics Consumer Expenditure Survey 2024.

[2]Projected Savings Medicare Beneficiaries Need for Health Expenses in Retirement up Again in 2025, Employee Benefit Research Institute Issue Brief, March 5, 2026.

[3]How much will you spend in retirement, Fidelity Viewpoints, Fidelity, June 21, 2026.

[4]Medicare Households Spend More on Health Care than Other Households. Kaiser Family Foundation, March 14, 2024.

[5]2026 Retirement Healthcare Costs Data Report, HealthView Services, February 2026.

[6]Medicare Advantage in 2026: Enrollment Update and Key Trends, Kaiser Family Foundation, June 5, 2026.

[7]Medicare Part D Enrollment, Premiums, and Cost Sharing in 2026, Kaiser Family Foundation, June 11, 2026.

[8]A Snapshot of Sources of Coverage Among Medicare Beneficiaries, Kaiser Family Foundation, December 19, 2025.

[9]Bracing for Health Costs in Retirement, Retirement Income Journal, August 1, 2026.

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