

[Guest Post] How to Plan for Healthcare Costs

Today I have a fantastic guest post from The Green Swan. For those of you unaware, The Green Swan is a way of life designed for those who want to reach financial independence young and retire early. The Green Swan recently published a book, be sure to [check that out here](#). Also, be sure to check out TheGreenSwan.org for his latest post.

Healthcare is expensive and the way it is being paid for has changed substantially in recent years primarily due to the advent of the Affordable Care Act (Obamacare). This can make budgeting and planning for healthcare related expenses more and more challenging for folks.

Like many people, I like being able to budget out my expenses for the next year and have a fairly good idea of how much I'll spend. But it is getting harder and harder to do so with any level of certainty these days with regards to healthcare in particular.

So how can you plan for healthcare costs? First, I think it is best to understand where healthcare is going in the future. Secondly, understand your swing factors. And third, give yourself some cushion with a rainy day fund. Allow me to explain more.

Where is Healthcare Going?

The nation is struggling to control healthcare costs, but the prevailing theory is that by requiring consumers to pay a higher share of the total cost will help slow the growth of overall healthcare costs. The thought being, if you feel more of the pain, you'll be more cost conscious and make more careful decisions to reduce waste in the system. I personally don't disagree with this philosophy, but I think it is only part of the answer.

I think the other major issue is the fact there is very little (if any) price transparency which obviously makes it hard to be cost conscious. There is also a lack of a consumer friendly approach by the healthcare providers (poor billing

practices, bills that you can't comprehend, etc.). And perhaps most importantly, we are a more unhealthy population requiring more healthcare these days (put that Snickers down...).

Yes, look yourself in the mirror and acknowledge there are things you can do to control your own healthcare by being more healthy. Eat better foods and exercise regularly. Take charge and take better care of yourself.

But back to the point...the introduction of high deductible health plans tied with health savings accounts (HSAs) is one way for the consumer to have skin in the game. Many employers have transitioned to this type of plan while it is also the most common on the Obamacare health insurance exchanges. Employers have been quick to jump on these plans because they undoubtedly help them control their own costs.

This approach to managing healthcare costs has not proven to work so far as health costs continue to rise. And it is not expected to slow down anytime soon. The rage is all about "consumer-driven healthcare". What this means is you can expect to pay for more of your own healthcare going forward.

So not only is the cost of care going up annually, but you will be paying a greater share of that cost. That is not only my opinion, but also the recent trend.

Understand Your Swing Factors

When I say understand your swing factors I mean know what type of care you may require in the near term and what costs you can control. For example, I have a 2 year old boy. That's a swing factor...who knows what kind of healthcare he will require! A year ago he had a series of ear infections which ran up significant costs for anti-biotics and ultimately ear tube surgery which cost about \$2.5K out of pocket (not surprisingly I have a high deductible health plan offered by my employer so the first dollar comes from my pocket).

Another example of a swing factor would be any pre-existing conditions that you may have and you know will cost a certain amount every year (asthma, diabetes, etc). And the last example of a swing factor I'll give would be a random sickness or ailment. My family experienced this recently when my wife contracted pneumonia which required an urgent care visit and medication which

quickly ran up a \$500+ medical bill.

There are many other examples. Some swing factors are easier to estimate the cost of while others, like kids, you can never guess. But just knowing that your wallet may be more prone to an unexpected healthcare bill will require more prudence when planning potential costs.

Cushion Your Rainy Day Fund

As we will be required to pay for a greater portion of the cost of medical care there are a few things we can do to prepare.

First, know your healthcare insurance policy. Understand not only what the premium is (how much you pay every paycheck or month), but also if there are co-pays (or co-payment, i.e. the flat amount you pay to visit a doctor), what your deductible is (the amount of healthcare costs you are responsible for before insurance pays any), co-insurance (the amount shared between you and insurance after the deductible is met), and your annual maximum out of pocket.

I know this is the last thing folks want to dig into, but understanding your insurance policy in and out will help you prepare for how much you will pay if/when you require medical care.

Secondly, make sure you have a sufficient rainy day fund or access to other cash if required to pay for a significant bill (i.e. a low interest rate home equity line, or accessing a taxable brokerage account, etc).

For my examples above, while my son did require a significantly expensive healthcare procedure, we did have a few months from his first ear infection until surgery was ultimately scheduled along with another month or two after the procedure to receive the bill. This gave us some time to build that cash buffer.

Alternatively, when my wife required the urgent care visit, fortunately it was a more manageable expense (although still costly and unexpected) and we had sufficient cash to pay that bill.

While we were able to successfully navigate these unexpected, but required medical care, the next time may be ever more expensive or urgent. So we do have plans in place to be able to access enough cash to pay our full maximum out of pocket just in case.

Maintaining flexibility is key to managing healthcare costs.

If you are planning an early retirement it is all the more important to make sure you have adequate cushion and flexibility as the healthcare landscape in America will continue to evolve. For example, the healthcare exchanges are not profitable for most insurance companies and many are considering a withdrawal from offering these plans. The subsidies offered by the government have also amounted to being more costly than anticipated originally. The combination of these factors may very well mean more expensive insurance through the exchanges with less subsidy benefits.

Conclusion

Planning for healthcare costs will continue to be more and more difficult each year. This is driven by the general increase in healthcare costs annually as well as a greater portion of the cost of care being put on the shoulders of the patient. You will see this hit your wallet most commonly through a combination of increased premiums and higher deductibles. You can argue whether this is right or wrong, but the problem will likely continue to persist.

One could call this the “*new normal*” for healthcare and it is time to plan accordingly.

The Green Swan

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Gen Y Finance Guy

Hey, I'm Dom - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite

executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)