Healthcare Doesn't Have to Delay Your Retirement

How thoughtful income planning may help you retire before Medicare, while keeping healthcare costs surprisingly low.

"I'd love to retire early, but I don't think I can afford healthcare."

We hear this all the time, and it's a completely legitimate concern - or is it?

Many people assume they have to work until age 65 simply because Medicare begins then. In reality, retiring before Medicare can sometimes cost less than waiting until age 65 if you have the right retirement income strategy.

The key isn't simply when you retire, it's how your retirement income is structured.

Understanding the Opportunity

Marketplace health insurance (often referred to as the Affordable Care Act Marketplace or Obamacare) provides premium assistance based on household income.

For purposes of this discussion, we'll use the 2026 income threshold of **$84,600**.
Stay below that amount and you may qualify for substantial premium assistance.
Go above it, and that assistance may disappear entirely.
That's why retirement income planning matters.

Strategy #1 - Use Roth IRA Assets Strategically

Gross income is the determining factor for marketplace insurance. The grocss income calculation includes the sum of:

- Wages
- IRA & 401(k) distributions
- Social Security
- Capital gains
- Self-employment income
- Rental income
- Pension income
- Interest & dividends

One notable exception? *Qualified Roth IRA distributions.*

I've often told clients they'll never regret contributing to a Roth IRA.
While paying taxes upfront isn't always easy, the flexibility a Roth provides during retirement can be incredibly valuable.

This is one of those situations.

Traditional retirement planning often recommends withdrawing assets in this order:

- Taxable investments
- Pre-tax retirement accounts
- Roth IRA

However, during the years between retirement and Medicare, I often encourage clients to think a little differently.

A more efficient withdrawal strategy may look like this:

- Cash, money market funds, or investments with little or no capital gains
- Pre-tax retirement accounts (to take advantage of lower tax brackets)
- Roth IRA assets

This approach may help reduce taxable income, maximize lower tax brackets, and keep you below the marketplace subsidy threshold.

Strategy #2: Build Cash Before You Retire

What if you don't have Roth assets?

If you're over age 59½, or have access to a deferred compensation plan before then, you may have another opportunity.

While you're still employed, your health insurance premiums generally aren't determined by Marketplace subsidy rules.

That means it may make sense to intentionally withdraw a larger amount from your pre-tax retirement account before retiring.

Yes, you will likely pay additional income tax on that withdrawal.

However, those dollars can remain in your checking or savings account and be used to fund future retirement expenses without increasing your taxable income during the years when Marketplace subsidies matter most.

Sometimes paying a little more tax today can create significantly larger savings tomorrow.

Strategy #3: Make It Count

Some retirees need both Social Security and ongoing withdrawals from their retirement accounts to meet their spending needs.

If that's your situation, consider whether it makes sense to concentrate larger withdrawals into one year instead of spreading them evenly across several years.

Doing so may push your income above the subsidy threshold for one year. However, lowering your taxable income in future years could allow you to qualify for substantial premium assistance over multiple years.

The strategies above may sound simple, but the impact can be dramatic.

Let's look at an example.

Case Study: How Strategic Withdrawals Saved Over $100,000 in Healthcare Premiums

Meet Lou and Mary Senup.

They retire at age 60 and want to enjoy retirement without worrying about healthcare costs before Medicare begins.

For this illustration:

- They need $7,000 per month after taxes.
- They have no Roth IRA assets.
- They begin Social Security at age 62.

Step 1: The Traditional Approach

Without any planning, Lou and Mary simply withdraw enough from their pre-tax retirement accounts each year to meet their spending needs.

Their annual retirement income remains between $93,000 and $96,000, well above the marketplace subsidy threshold.

At first glance, nothing seems unusual. They're simply withdrawing enough to fund their retirement lifestyle.

Unfortunately, thats where the hidden cost begins.

*These numbers are based off real numbers for a married couple in Dunn County, WI with the highest deductible and lowest premium available.

Step 2: The Healthcare Surprise

Because their income remains above the Marketplace subsidy threshold, Lou and Mary don't qualify for premium assistance.

As a result, they pay the **full annual health insurance premium of approximately $29,425** each year before Medicare begins.

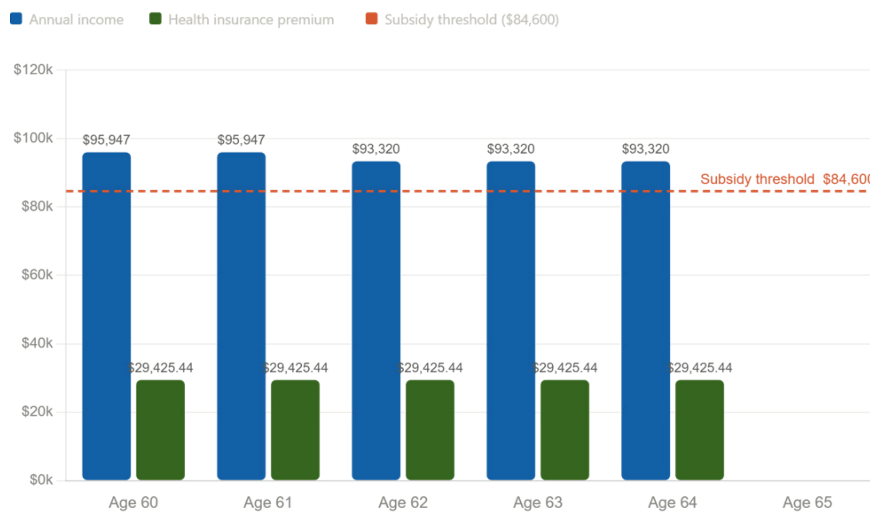
Over several years, those premiums become one of the largest expenses in retirement.

Monthly spending need
$7,000

Income ages 60–61
$95,947

Income ages 62–64
$93,320

Full premium
$29,425



Step 3: A Different Strategy

Instead of withdrawing the same amount every year, Lou and Mary intentionally withdraw an additional **$80,000** from their IRA during the first year of retirement.

Yes - they pay more taxes that year.

But they also build a cash reserve they can use to fund future retirement expenses.

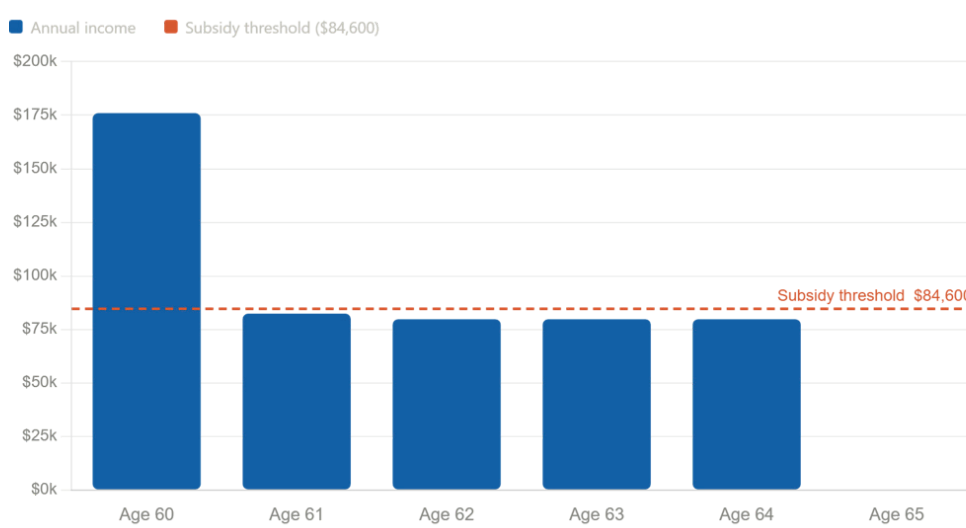
This larger withdrawal pushes their income well above the subsidy threshold for one year, but dramatically reduces the amount they need to withdraw in future years.

Monthly spending need
$7,000

Income at age 60
$175,947

Reduction (ages 61–64)
−$13,600

Subsidy threshold
$84,600



Step 4: Staying Below the Threshold

Now, instead of withdrawing approximately **$95,000** every year, Lou and Mary only need to withdraw approximately **$79,700–$82,300 annually.**

Notice what happened.

Their income now falls below the marketplace subsidy threshold, allowing them to qualify for premium assistance from ages 61 - 64.

One intentional planning decision completely changed the trajectory of their healthcare costs.

Step 5: Was It Worth It?

Naturally, the next question is: “**Didn’t they pay more taxes?**”

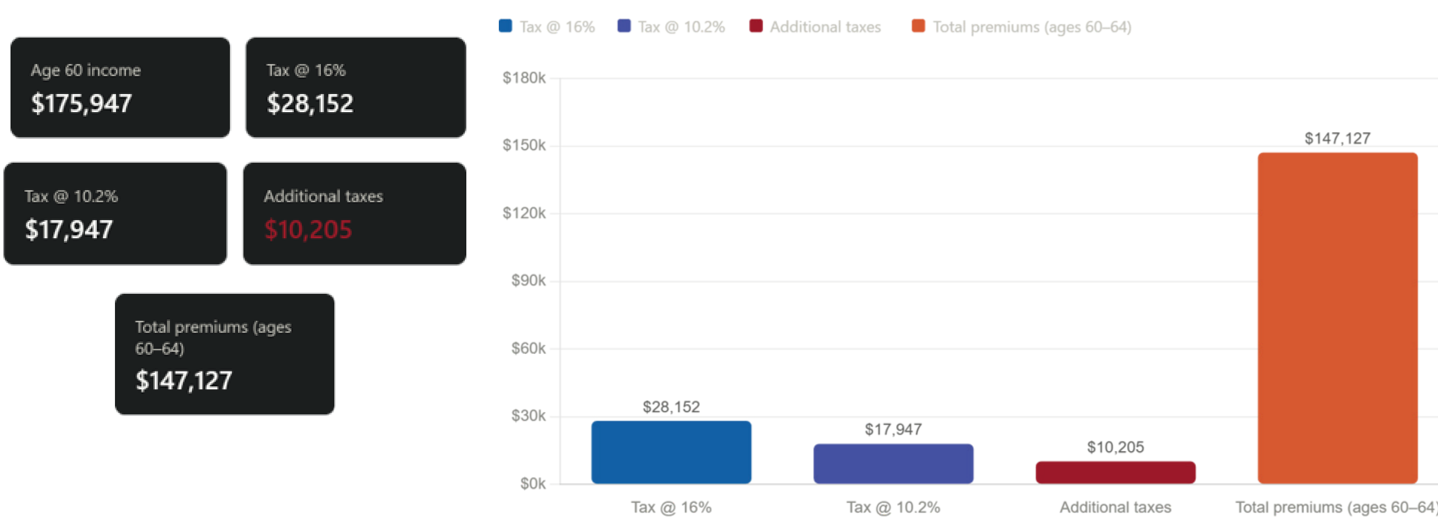
Yes.

By taking the larger IRA withdrawal upfront, they paid approximately $**10,205** in additional income taxes.

However, they avoided approximately **$107,497** in healthcare premiums over the following four years.

The Bottom Line

By intentionally paying approximately **$10,205** more in taxes during one year, Lou and Mary reduced healthcare costs by more than **$107,000** before Medicare.



Every Retirement Plan Is Different

This example is designed to illustrate an important principle.

How you withdraw your retirement assets can be just as important as how you accumulated them. Healthcare costs don't necessarily have to delay retirement.

With thoughtful planning, many retirees are able to significantly reduce, or even eliminate, their Marketplace premiums before Medicare begins.

That's why retirement income planning isn't simply about investments or taxes. It's about coordinating every moving piece so your money works as efficiently as possible.

Ready to see what this could look like for you?

If you'd like one of our advisors to review your retirement income strategy and determine whether there may be opportunities to reduce healthcare costs, we'd be happy to help.

We do not charge for an initial consultation or retirement analysis because we believe value should come first.

If we can help, we will show you how.

Thank you for reading. I hope you found this helpful.

Best Wishes,

John Heike
Partner & Financial Advisor | Waznik Heike Group

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