FIT for LIFE

A health policy may not be able to take care of all your health care expenses in old age. Here's a better plan

By **Chandralekha Mukerji**

YOU know that health care costs rise as you age. But have you factored in the likely additional expenses in your retirement plan?

Unlike some developed countries, we do not have social security or long-term health-care products. And unless you work in a public sector organisation, you cannot depend on your employer for life long health care benefits. In fact, the group insurance which you have also ceases when you retire.

Then there is inflation. According to government data, medical costs have risen 14 per cent since 2010. Also, as medical science evolves, costs rise.

Even without hospitalisation, there will be regular out-of-pocket expenses such as on medicines, preventive check-ups and consultation. It is, therefore, important to build a separate portfolio for medical expenses so that they do not eat into your retirement savings.

HOW MUCH TO SAVE?

To estimate post-retirement health-care expenses, one needs to first look at the present costs. "Take an average of three-five years costs and keep adding 10-15 per cent to that sum every year," says Arvind A Rao, a certified financial planner.

Then there are factors such as longevity and threat of out-living the corpus or deteriorating health as you age. It is better to provide for more funds than your current requirements.

Evaluate your lifestyle to find out the diseases that may occur because of it. Also look at the possibility of contracting a hereditary disease. Do not forget to include spouse in the calculation.

PORTFOLIO MAKE-UP

Start with a comprehensive health policy. Buy it as early as possible as choices will shrink as you age. You'll not only have to pay a higher premium, insurers will limit the sum insured and demand higher co-payment.

Financial planners say one must start working on the plan when one is 30-35 years old. If you are a late starter and feel the premium is high, the peace of mind that comes with buying a health plan makes it worth it.

"Even if one is retiring in five-six years, it is good to buy health insurance so that pre-existing illnesses can be covered when the cover provided by your employer ceases at retirement. Also, opt for top-up plans and critical illness covers. These extend the cover while keeping the premium low," says Suresh Sadagopan, principal financial planner, Ladder7 Financial Advisories.

A health policy pays hospital bills. However, it doesn't take care of all the expenses. For instance, most indemnity plans do not pay for domiciliary treatment and preventive health care. Also, pre- and post-hospitalisation costs are reimbursed only up to certain (usually 60-90) number of days. It is, therefore, important to have a separate corpus for paying such bills. "A general estimate is that every couple should keep aside at least ₹15-20 lakh for post-retirement medical expenes," says Rao.

A good way to save this much money is committing a fixed sum every month over a long period. Investing in a mix of equity and debt will give the portfolio both growth and stability.

The choice of instruments will also depend on their tenure, the expected return and the investor's risk tolerance. For instance, public provident fund is a good option for people who have at least 15 years to retire. If you have fewer years to retire and are ready to take some risk, consider systematic investment in a balanced mutual fund.

"There are also dedicated unit-linked health plans offered by life insurers that provide medical insurance and invest in equity and debt markets," says Hiren Dhakan, associate fund manager, Bonanza Portfolio.

Also, make sure the corpus lasts for long. Park the money in investments that provide liquidity along with capital protection. "A very good option can be liquid funds or liquid-plus funds," says Vinit Iyer, a Pune-based certified financial planner.

Liquid funds, with a lock-in of a few weeks, offer 6-8 per cent annual return, enough to beat inflation. One can also consider fixed deposits (FDs) with maturity of three-six months.

If you need funds on a regular basis, invest in a monthly income plan (MIP). MIPs invest mostly in debt and usually give better returns than FDs. As the performance of MIPs depends on the market conditions, a conservative person may prefer a bank FD. The interest accrued on FDs is taxable as per an individual's income tax bracket. MIPs are more tax-efficient as the return is classified as long-term capital gains. The tax rate is 10 per cent without indexation (adjustment for inflation) and 20 per cent with indexation.

"If you can do with annual payouts, a non-cumulative fixed deposit can be ideal for you. You get an assured return and the interest is transferred to your savings account every year," says Satkam Divya, business head, Rupeetalk.com.

A bit of smart spending can also reduce your medical bills and stretch the buck a little more. Some big hospital groups such as Apollo, Max, Sahyadri and Wockhardt offer their own health-care schemes and packages that give discounts on a number of treatments and day-care facilities.

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TAX TREATMENT

HEALTH INSURANCE PLANS: There is an income-tax deduction up to ₹15,000 (for people below 60) under Section 80(D) for health insurance premiums. For senior citizens, the deduction limit is ₹20,000. A deduction of ₹5,000 (within ₹15,000 limit) can be claimed for preventive health check-ups.

PUBLIC PROVIDENT FUND: You can save up to ₹1 lakh under Section 80C. The proceeds are also tax-free under Section 10 (10)D.

MONTHLY INCOME PLANS: The proceeds are taxed as long-term capital gains (10 per cent without indexation and 20 per cent with indexation).

TREATMENT: Cost of certain ailments such as cancer, kidney failure and AIDS are eligible for deduction up to ₹40,000 under Section 80DDB. This limit is ₹65,000 for people over 60 years.

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