Are you prepared for future health care costs?

"We're talking about a number that can be terribly depressing."

That's how Brad Kimler, senior vice president of Fidelity Employer Services Company, kicked off a conference call last week to announce Fidelity's annual and widely publicized estimate of health care costs in retirement.

The admittedly depressing number is $215,000, up 7.5 percent from last year's $200,000. That's how much an average 65-year-old couple retiring this year should have in hand for lifetime health-care expenses, Fidelity calculates.

"That is just how the math works," Kimler said, with the $215,000 representing the amount this couple would need today to cover future anticipated expenses rising at the rate of 7 percent a year.

"That is why we publish this number every year," to raise awareness of the issue, he said.

Consider us aware. Since Fidelity first computed the estimate in 2002, the number has risen a total of 34 percent, with an average annual increase of 6.1 percent.

The 2007 estimate of $215,000 assumes this couple does not have employer-sponsored retiree health care insurance and lives an average life expectancy, which is age 85 for the woman and 82 for the man.

About 32 percent of the estimated total cost is for Medicare Part B and D premiums. Another 35 percent is for co-payments, co-insurance, deductibles and excluded benefits, and 33 percent for out-of-pocket costs for prescription drugs.

The $215,000 does not include other health-related expenses such as over-the-counter medications, most dental services and long-term care.

"People absolutely should realize there would be additional costs" if long-term care is needed, Kimler said, and that costs also could go up significantly if the couple lives beyond their life expectancy.

Because of rising costs for health care, a long life can also mean escalating medical expenses.

A separate study by the Fidelity Research Institute found that, for 44 percent of retirees, Social Security represents the greatest source of income. (Both the Institute and Kimler's company are units of Fidelity Investments.) Based on Kimler's estimate, a 65-year-old worker making $60,000 a year and retiring this year would spend 27 percent of the first-year Social Security benefits just for health care.

And if medical costs keep rising by 7 percent a year compared to only a 3 percent rise in the cost-of-living adjustment, in 16 to 18 years half the retiree's Social Security check would be consumed by health care.

"That's a pretty large chunk of your retirement income that is going to be used to pay for health care," Kimler said, and that is why people need to make health care a big part of their retirement plan.

"A significant number of retirees told us their state of health is not good, they are spending more in retirement than they ever planned, and some were even forced into an early retirement due to health problems," Kimler said, citing Fidelity research findings we've reported earlier that parallel those of studies by the not-for-profit Employee Benefit Research Institute.

But even if the $215,000 number seems daunting, today's workers can begin taking steps toward a more secure future, Kimler said.

The first step is to create an overall retirement plan, factoring in specific circumstances such as current savings, anticipated income sources, lifestyle, expenses and likely health care needs in retirement.

One component of such a plan could be health savings accounts or HSAs, which were enhanced by the Tax Relief and Health Care Act of 2006. The legislation, enacted in December, provided incentives for both employers and employees to better use these tax-favored accounts.

Also, employers can now initiate a one-time rollover of funds from an individual's health Flexible Spending Account (FSA) or Health Reimbursement Arrangement (HRA) to an HSA. In addition to offering an HSA, employers should consider providing guidance and planning tools to their employees to help lead healthier lifestyles, Kimler said.