

DON'T LET  
HEALTH  
CARE  
EXPENSES  
DERAIL  
YOUR  
RETIREMENT



MAINTAINING HEALTH COULD COST MORE THAN  
YOU EXPECT; HERE'S WHAT YOU NEED TO KNOW.





When you first envisioned retirement, how did you imagine it would go? Maybe you saw yourself spending time with family or enjoying hobbies. Or maybe you thought you'd use your financial resources to travel the world, experiencing new places and people.

Most of us plan for the things we enjoy when we're thinking about retirement. However, we may not stop to consider the one thing that can make or break all of our retirement plans: our health.

Health care costs are a major expenditure for most retirees. Our bodies become more high maintenance during the natural aging process. Adding insult to injury is that health care costs are rising more rapidly than anything else we pay for.

A confident retirement rests in keeping our health at its best for as long as we can and being prepared to cover the costs as our bodies begin to show their age. Yet how can you predict how much money you will need to cover health care expenses later?

While you may not have a crystal ball to tell you where your health is headed, you can take steps to prepare for future health care expenses. Read on to find out how you can prepare now to put the most life in your later years.

“ The greatest wealth is health.  
~Virgil ”

# THE PICTURE OF HEALTH



Americans are living longer — but they’re not necessarily living healthier. The Centers for Disease Control and Prevention reports that six in 10 adults are living with one chronic disease, while four in 10 have been diagnosed with two or more chronic ailments. The list of chronic conditions affecting the majority of those diagnosed includes heart disease, cancer, stroke, Alzheimer’s and diabetes, among others.<sup>1</sup>

Living with a chronic disease can be a drain on financial resources. In a 2018 study conducted by Fidelity, it was estimated that a 65-year-old couple who retired in 2018 would need \$280,000 to cover health care costs during their remaining years.<sup>2</sup> Those projections include insurance premiums, cost-sharing provisions such as copays and out-of-pocket costs for Medicare. That number doesn’t account for items such as over-the-counter medications, dental services or long-term care, and it also doesn’t consider any health care coverage provided by employers.

Inflation also plays a critical role when planning for health care costs in retirement. Estimates show that health care-related inflation will increase at an average annual rate of 4.22% for the next few years.<sup>3</sup> That’s more than three times the rate of overall inflation in the U.S. from 2013 to 2017, which showed average annual inflation rates of 1.32%.<sup>4</sup>

## Average Life Expectancies Since 1960<sup>5</sup>

YEAR*	MALE	FEMALE
2015	83.0	85.5
2010	82.7	85.3
2000	81.0	84.0
1990	80.1	83.9
1980	79.1	83.3
1970	78.1	82.0
1960	77.8	80.8



\*Average expectancy for individuals who have reached age 65 in the indicated year

# A BITTER PILL TO SWALLOW



Medicare — the federal health insurance program for Americans age 65 and older — covered health benefits for 59 million people in 2018.<sup>6</sup> As baby boomers continue to retire, the number of individuals receiving Medicare benefits will continue to grow. In fact, it's estimated that by 2028 the U.S. will pay \$1.3 trillion annually in Medicare benefits for retirees.<sup>7</sup>

Some retirees are surprised to learn that they'll still pay insurance premiums for access to Medicare. Medicare Part A is free for those who qualify, but beneficiaries pay premiums for Part B, Part C and Part D. Premiums are also subject to annual increases. For example, the standard monthly premium (applicable to most Medicare beneficiaries) for Medicare Part B increased from \$134 in 2018 to \$135.50 in 2019.<sup>8</sup> The annual deductible also increased from \$183 to \$185 between 2018 and 2019.<sup>9</sup>

While having access to Medicare benefits helps many retirees, Medicare does not include coverage for dental, vision or hearing services. It also doesn't cover long-term care costs, such as an extended stay in a skilled care facility.<sup>10</sup> As a result, many Medicare beneficiaries report high out-of-pocket costs for health care. In fact, it's projected that Medicare beneficiaries will spend up to 50% of their Social Security income on health care-related costs by 2030.<sup>11</sup>

If you'll soon turn age 65 and become Medicare-eligible, your financial professional can provide guidance on the parts of Medicare and what you'll need to know. If you're already receiving Medicare benefits, you may benefit from having an experienced Medicare professional review your enrollment to ensure you're receiving all the benefits to which you are entitled and possibly identify ways to decrease your out-of-pocket expenses.

## The Four Parts of Medicare

Part A

Hospital costs, including skilled nursing home care or hospice

Part B

Outpatient care, such as doctor visits, preventive care and some medical supplies

Part C

Supplemental insurance covering items not included in Part B

Part D

Prescription costs

# STANDARDS OF CARE



A longer life means an increased possibility that an individual will need long-term care of some sort. As life expectancies have increased, the amount spent on long-term care in the U.S. has also increased; Americans spent \$225 billion on long-term care in 2015, compared to \$30 billion in 1980.<sup>12</sup>

The chance of needing long-term care is higher for women, who have higher life expectancies; it's estimated that 57.5% of women turning age 65 will have a need, as compared to 46.7% of men.<sup>13</sup>

In a 2018 Cost of Care survey conducted by Genworth, annual median costs for long-term care can range from \$48,048 to \$100,375.<sup>14</sup> Because Medicare doesn't provide coverage for long-term care, individual retirees must cover the costs out of pocket or with benefits provided by a long-term care insurance policy or other type of insurance coverage.

Some of the options for long-term care coverage include:

- + Long-term care insurance:** Reimburses policyholders for expenses associated with services to assist them with daily living. The cost of a long-term care insurance policy is based on many factors, including your age when you buy the policy, benefits provided by the policy, any optional benefits you choose to include and more.
- + Asset-based long-term care insurance:** Combines a life insurance contract with a long-term care policy providing benefits for a long-term care need, and if not needed, then a death benefit will be paid out upon the insured's death.
- + Long-term care rider:** A rider that can be added to a life insurance policy allowing the death benefit to be used to help cover long-term care expenses that may arise.
- + Chronic illness rider:** Purchased as an optional protection on a life insurance contract, chronic illness riders allow the death benefit to be used to help provide additional coverage should a chronic/nonrecoverable illness occur.
- + Annuity with long-term care rider:** Purchased as an optional protection on an annuity contract, expenses will be paid from the annuity's value, up to the specified maximum monthly amount until the annuity and rider's value has been depleted. In some cases, extended benefits may be available for an additional cost.
- + Annuity confinement rider, aka "doublers":** An option available on many fixed index annuity contracts, this rider is accessed once an insured meets the contract's qualifications for being confined to a nursing home or diagnosed with a terminal illness, and it allows a regularly scheduled annuity payment to be doubled either for a specified amount of time or until the rider account value is depleted.
- + Self-insuring:** A method of managing risk by setting aside a pool of money to be used if an unexpected long-term care need arises.





**Medicaid:** A jointly funded, federal-state health insurance program for low-income and needy people. It covers children, the aged, blind and/or disabled and other people who are eligible to receive federally assisted income maintenance payments.

Your financial professional can discuss the options with you and help create a strategy that provides for your possible long-term care needs. He or she can also help you explore potential long-term care coverage options and how they might fit into your strategy. Planning ahead can provide direction when it comes time for you (or a family member) to make decisions about care for you or a spouse. A solid long-term care plan can give you and your loved ones confidence that you will have quality care when you need it.

## Long-Term Care by the Numbers<sup>15</sup>

70% — Chance of needing long-term care if you're currently age 65 or older

3.7 years — Number of years women need care (on average)

2.2 years — Number of years men need care (on average)

20% — Percentage of today's 65-year-olds who will need care for longer than 5 years

## AN OUNCE OF PREVENTION



Whether you're just starting to think about retirement, nearing your retirement date or already enjoying your retirement years, a financial professional can work with you to create a strategy for covering your health care costs during your later years. There are also things you can do to prepare for future needs or even reduce future expenses, including:

Take charge of your health. Even if you've already been diagnosed with a chronic condition, you can still take steps to improve your health. Eat well, get plenty of sleep and be sure to exercise. It's also a good idea to seek out preventive services such as annual vaccinations for illnesses like flu, pneumonia or shingles.

Know your policies. Understanding your Medicare benefits and what is covered can prevent surprises when your bill is due. If you own a long-term care policy or other type of care coverage, it's important to know what services are covered and when the benefits kick in. Your financial professional can review this information with you and help you navigate how to receive benefits when you need them.

Communicate with those closest to you. Let those who will be responsible for your care know what your wishes are and what strategies you've put in place to cover costs related to your health. This is a good time to establish a power of attorney if you haven't already done so, in the event you are incapacitated and need someone else to make decisions on your behalf.

Review your expenses regularly. Tracking how much you pay for health care costs can help you identify where you're paying more and give you an idea of what percentage of your income is currently going toward health care costs.

When it comes to your health, it's impossible to predict the future. It is, however, possible to be prepared for a variety of scenarios. The key lies in understanding the variety of available options and creating a strategy that fits your unique circumstances.

An experienced financial professional can help build a plan that addresses all your questions and prepares for the "what-ifs" related to not only health issues but also to your retirement as a whole. To get started with your plan for retirement, call now to schedule a meeting. You must get started today, because you never know what your health might bring tomorrow.

“ Take care of your body. It's the only place you have to live. ”  
~ Jim Rohn

<sup>1</sup>Centers for Disease Control and Prevention. "Chronic Diseases in America." Oct. 25, 2018. <https://www.cdc.gov/chronicdisease/resources/info-graphic/chronic-diseases.htm>. Accessed Nov. 14, 2018.

<sup>2</sup>Fidelity. April 19, 2018. "A Couple Retiring in 2018 Would Need an Estimated \$280,000 to Cover Health Care Costs in Retirement, Fidelity® Analysis Shows." <https://www.fidelity.com/about-fidelity/employer-services/a-couple-retiring-in-2018-would-need-estimated-280000>. Accessed Nov. 1, 2018.

<sup>3</sup>HealthView Services. "2018 Retirement Healthcare Costs Data Report®." <http://www.hvsfinancial.com/wp-content/uploads/2018/09/2018-Retirement-Health-Care-Costs-Data-Report.pdf>. Accessed Nov. 4, 2018.

<sup>4</sup>US Inflation Calculator. "Current US Inflation Rates: 2008-2018." <https://www.usinflationcalculator.com/inflation/current-inflation-rates/>. Accessed Nov. 4, 2018.

<sup>5</sup>Centers for Disease Control and Prevention. National Center for Health Statistics. Aug. 9, 2018. "Health, United States, 2017 – Data Finder." [https://www.cdc.gov/nchs/hsr/content2017.htm?search=Life\\_expectancy](https://www.cdc.gov/nchs/hsr/content2017.htm?search=Life_expectancy). Accessed Jan. 15, 2019.

<sup>6</sup>Juliette Cubanski et al. Henry J. Kaiser Family Foundation. Jan. 26, 2018. "Medicare Beneficiaries' Out-of-Pocket Health Care Spending as a Share of Income Now and Projections for the Future." <https://www.kff.org/medicare/report/medicare-beneficiaries-out-of-pocket-health-care-spending-as-a-share-of-income-now-and-projections-for-the-future/>. Accessed Nov. 1, 2018.

<sup>7</sup>Committee for a Responsible Federal Budget. May 16, 2018. "American Health Care: Health Spending and the Federal Budget." <http://www.crfb.org/papers/american-health-care-health-spending-and-federal-budget>. Accessed Dec. 3, 2018.

<sup>8</sup>Lorie Konish. USA Today. Oct. 12, 2018. "Medicare monthly premiums are going up \$1.50 in 2019. Deductibles will be rising, too." <https://www.usatoday.com/story/money/personalfinance/2018/10/12/medicare-premiums-going-up-what-expect-pay/1618044002/>. Accessed Nov. 30, 2018.

<sup>9</sup>Ibid.

<sup>10</sup>Medicare.gov. "What Medicare Covers." <https://www.medicare.gov/what-medicare-covers>. Accessed Nov. 4, 2018.

<sup>11</sup>Juliette Cubanski et al. Henry J. Kaiser Family Foundation. Jan. 26, 2018. "Medicare Beneficiaries' Out-of-Pocket Health Care Spending as a Share of Income Now and Projections for the Future." <https://www.kff.org/medicare/report/medicare-beneficiaries-out-of-pocket-health-care-spending-as-a-share-of-income-now-and-projections-for-the-future/>. Accessed Nov. 1, 2018.

<sup>12</sup>Christine Benz. Morningstar. Aug. 31, 2017. "75 Must-Know Statistics About Long-Term Care." <https://www.morningstar.com/articles/823957/75-mustknow-statistics-about-longterm-care.html>. Accessed July 2, 2018.

<sup>13</sup>Ibid.

<sup>14</sup>Genworth. June 2018. "Cost of Care Survey 2018." <https://www.genworth.com/aging-and-you/finances/cost-of-care.html>. Accessed Dec. 1, 2018.

<sup>15</sup>LongTermCare.gov. Oct. 10, 2017. "How Much Care Will You Need?" <https://longtermcare.acl.gov/the-basics/how-much-care-will-you-need.html>. Accessed Dec. 3, 2018.

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