
PLANNING FOR RETIREMENT: THE HEALTHCARE WILDCARD

Understanding healthcare costs in retirement // Misconceptions about Medicare // Taking action

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KEY TAKEAWAYS

Even with supplemental insurance and Medicare, out-of-pocket healthcare costs in retirement can be expensive with the potential to derail even the best-laid plans.

Work with your financial advisor to determine how these expenses fit into your overall retirement picture.



Take the time to learn about Medicare. Being informed is the best way to avoid mistakes that cost money. Rely on your advisor to help clarify issues you don't understand or to point you toward resources that will help you.



Your advisor can help you estimate what your healthcare needs and costs will be in retirement. Working together, you can identify unique healthcare issues that might require more consideration, such as the need for long-term care insurance, and adjust your plan accordingly.

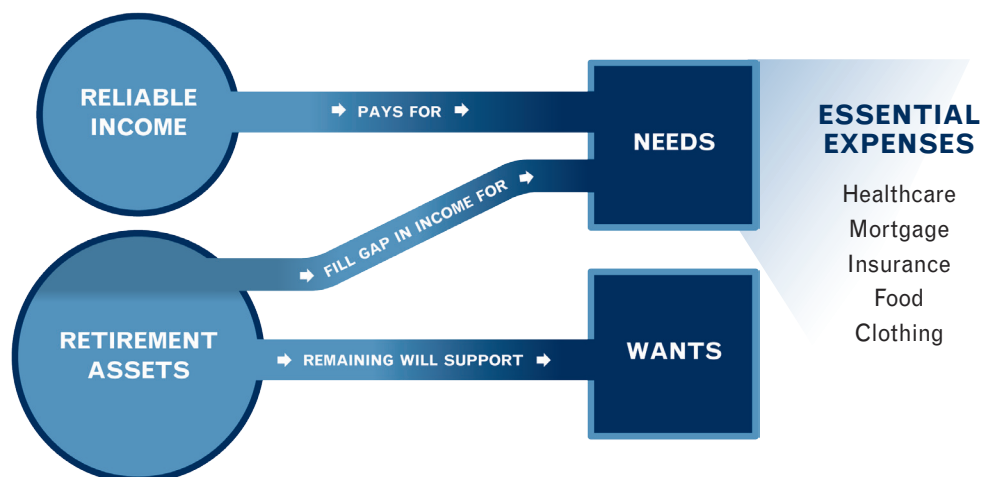
THE EARLIER THE BETTER

It's never too early to start thinking and planning for retirement, especially when it comes to major expenses like healthcare. For many, retirement is not just the end of a long, fruitful career, but the start of the next stage of life. You may have a clear vision of your ideal retirement, but that dream could fade if unexpected healthcare costs start to eat away at your hard-earned retirement savings. The fact is, even with Medicare, healthcare coverage in retirement can carry a high price. There are still premiums, co-pays, deductibles and other out-of-pocket expenses that must be accounted for.

Unfortunately, wrapping your head around the myriad of healthcare options can be complicated and overwhelming, leading many retirees to underestimate how much they'll really need to cover healthcare expenses.

However, quantifying potential costs, evaluating your options and developing a comprehensive plan could go a long way to easing those fears by accounting for scenarios that may keep you up at night. For example, how will you pay for healthcare if you live 30, 40 or even 50 years in retirement? Americans are living longer and longer these days, and yes, increased longevity is wonderful, but with it comes a greater risk of experiencing changes in health and more pressure on assets to provide income over the long run. Plus, healthcare costs are projected to grow 6.3% annually through 2019, according to a Health Affairs study. Planning for these essential expenses could mean the difference between a secure retirement and one fraught with worry. That's why it's so important to incorporate those costs – and how to pay for them – into your overall retirement income plan as soon as possible.

YOUR RETIREMENT INCOME PICTURE



Within your retirement income plan, healthcare coverage should be considered an essential need, paid for by your reliable income, such as Social Security or pension payouts. If your reliable income isn't enough to cover basic needs, you may have to tap your retirement assets.

THE TRUTH ABOUT MEDICARE

The majority of retired Americans expect Medicare to cover their healthcare costs, but in reality, Medicare only pays about 60% of current retirees' medical costs, according to the Employee Benefit Research Institute. For instance, you'll still have co-pays, premiums and deductibles, and Medicare doesn't cover hearing, dental, vision or long-term care costs. Some retirees are lucky enough to receive a retiree healthcare benefit from a former employer, but that has become increasingly rare. So, many turn to supplemental insurance to cover the remaining 40%.

THE A, B, D AND C OF MEDICARE

There are a number of different pieces that make up Medicare, all of which cover different portions of your healthcare and come with their own set of rules. Original Medicare consists of three main parts: hospital insurance (Part A), medical insurance (Part B)

and prescription drug coverage (Part D). Additionally, there are also Medicare Advantage Plans (Part C) and Medicare Supplemental Insurance Plans (Medigap). The following is a brief overview of each, what they cover and associated costs.

PART A – Hospital Insurance

Medicare Part A provides hospital insurance and helps pay for a stay in a hospital or skilled nursing facility, home healthcare, hospice care and medicines administered to inpatients. Most people don't pay a premium because they paid Medicare taxes while working, however you will have to pay deductibles and co-payments based on length of stay in the hospital.

For example, here's what you'd pay in 2011 for an in-hospital stay:

Days 1-60: \$1,132 deductible

Days 61-90: \$283 per day co-pay

Days 90+: All costs or lifetime reserve days*

*60 reserve days that can be used once during your lifetime and carry a \$566 co-pay

PART B – Medical Insurance

Medicare Part B provides medical insurance and helps pay for physician and outpatient services such as rehab therapy, lab tests, medical equipment and some home health and preventive services. It also covers doctors' services in the hospital and most medicines administered in a doctor's office.

A monthly premium for Medicare Part B ranging from \$96.40 to \$369.10 applies based on yearly income. Most will pay \$96.40 or \$110.50 per month unless income exceeds \$170,000 for taxpayers married and filing jointly.

Deductibles and co-insurance are also charged for Medicare Part B. For 2011, participants will pay a \$162 deductible and 20% co-insurance on the Medicare-approved amount for services after the \$162 deductible.

THE A, B, D AND C OF MEDICARE (CONT.)

PART D – Prescription Drug Coverage

Medicare Part D provides prescription drug coverage and helps pay for prescription drugs that you use at home, plus insulin supplies and some vaccines. To get this coverage, you must enroll in a private Part D drug plan or in a Medicare Advantage plan that includes Part D coverage (see page 6).

A monthly premium for Medicare Part D applies based on your income and plan. Other costs include a deductible, co-pays for medicine, and an expensive “donut hole” in coverage (see below).

MEDICARE PART D ILLUSTRATION			
	Total drug costs/ Out-of-pocket costs \$6,447.50/\$4,550 ▶	95% Medicare benefit (catastrophic coverage)	Beneficiary pays 5% (min. co-pay of remaining costs \$2.50 generic or \$6.30 brand)
	\$2,840/\$942.50 ▶	No Medicare coverage in donut hole	Beneficiary pays 100% of next \$3,607.50
	\$310/\$310 ▶	75% Medicare benefit (initial coverage)	Beneficiary pays 25% of next \$2,530 or \$632.50
		\$310 Deductible	Beneficiary pays 100% of first \$310
		Source: Centers for Medicare & Medicaid Services	

As your prescription drug expenses accrue throughout the year, the costs covered by Medicare Part D change accordingly, as described in this chart.

THE A, B, D AND C OF MEDICARE (CONT.)

PART C – Medicare Advantage Plans

Medicare Advantage plans, or Medicare Part C, are provided by private HMOs/PPOs and cover all Part A and B services, except hospice. Most Medicare Part C plans include prescription drug coverage (Part D) and some cover vision, hearing, dental and wellness programs.

Individuals choosing to enroll in Part C must also enroll in Medicare Part B. Premiums and co-pays still apply, in addition to your Part B premiums. These costs vary by plan and there are increased costs for going out of network.

MEDIGAP – Supplemental Insurance Plans

Medigap or Medicare Supplement Insurance plans are offered by private insurance companies to help cover gaps in original Medicare coverage and minimize out-of-pocket expenses for things like deductibles, co-pays and co-insurance. Costs for these plans vary by provider, so shop around. Costs generally include premiums and co-pays.

There are 10 standardized Medigap policies or plans that provide varying levels of coverage. These plans are identified by the letters A, B, C, D, F, G, K, L, M and N and they *generally* provide the same benefits in all states. New Medigap policies *do not* offer prescription drug coverage.

If you are already enrolled in a Medicare Advantage plan (Part C), it is illegal for anyone to sell you a Medigap policy unless you're dis-enrolling from your Medicare Advantage plan.

ENROLLING IN MEDICARE

Medicare generally kicks in at age 65, unless you are disabled, in which case it may begin earlier. Once you become eligible, if you are already receiving Social Security benefits, you do not need to apply; you will automatically be enrolled in Medicare Part A and Part B and will be mailed your Medicare card. If you decide not to keep Part B, you will need to let Medicare know you don't want it by the date printed on the front of your Medicare card.

If you **are not** already receiving Social Security benefits, you won't get an official notice to enroll in Medicare, so you'll need to be proactive and contact the Social Security Administration during your initial enrollment period.

INITIAL ENROLLMENT PERIOD

Your initial enrollment period is the seven-month period beginning three months before the month you turn 65 and ending three months after the month you turn 65. The date your coverage begins depends on your birthday, but it is best to enroll prior to your 65th birthday to avoid delays in coverage.

GENERAL ENROLLMENT PERIOD (PARTS A AND B)

If you did not sign up for Part A and/or Part B when you were first eligible, you can enroll between January 1 and March 31 of each year. During this time you can sign up for Medicare Part A and/or B and your coverage will begin on July 1 of the year you enroll. **Higher premiums may apply due to late enrollment.**

ENROLLING FOR PRESCRIPTION DRUG COVERAGE (PART D) AND MEDICARE ADVANTAGE PLANS (PART C)

Enrollment in a Medicare Advantage plan (Part C) and Medicare prescription drug coverage (Part D) can take place during your initial enrollment period, certain open enrollment periods (see below) or during certain special enrollment periods.

OPEN ENROLLMENT PERIOD (PARTS C AND D)

Every year you have the option to make changes to your Medicare Advantage plan (Part C) and Medicare prescription drug coverage (Part D) for the following year during an open enrollment period that runs from October 15 to December 7.

From January 1 to February 14 you can still switch from a Medicare Advantage plan back to original Medicare and join a Medicare prescription drug plan (Part D).

You may also be eligible to make changes to your coverage due to certain events such as moving or loss of coverage.

THE EFFECT OF TIMING – WORKING PAST 65

Medicare generally kicks in at age 65, but if you work longer you could extend your eligibility for employer-subsidized health insurance, thus helping to further minimize your out-of-pocket expenses. Plus, the additional income could be saved toward future costs not covered by Medicare.

BENEFITS FROM YOUR EMPLOYER

Start by learning how your employee retirement benefits work, how much they will cost and how they interact with Medicare. Some employers provide coverage only until you turn 65, while others have programs that kick in after you enroll in Medicare. If you're on the same plan as your spouse, try to get an idea how spousal benefits will work when one or both of you are retired. For example, what happens if the employee dies? Will the surviving spouse still be entitled to benefits? The answers to these questions will allow you to make informed decisions for your personal strategy.

Often Medicare benefits are secondary to employer plan benefits, so you may wish to enroll in Part A to pick up costs not covered by your plan but delay enrolling in Part B to save money. Late enrollment penalties usually do not apply if you sign up during a special enrollment period.

Special enrollment periods

If you did not enroll in Part A and/or Part B when you were first eligible, a special enrollment period may be available to help avoid late enrollment penalties. You can sign up for Part A and/or B under a special enrollment period anytime you or your spouse are still working and covered by a group health plan through your employer or union based on current employment or during the 8-month period that begins the month after employment ends or the group health plan coverage ends, whichever happens first.

If you have COBRA coverage or are covered by a retiree health plan, you are not eligible for a special enrollment period when that coverage ends.

PLANNING FOR HEALTHCARE EXPENSES

A Center for Retirement Research study estimated out-of-pocket healthcare expenses for a healthy 65-year-old couple to be \$260,000 to \$570,000 for their entire retirement. While the figures are daunting, they account for a wide range of possibilities over the course of several decades. Income from investments and Social Security can go toward paying ongoing medical costs, such as Medicare premiums. As you plan for retirement, take these costs – including Medicare premiums and co-pays – into account so you'll be prepared for the unexpected.

CREATING A COVERAGE PLAN

Now that you realize how crucial budgeting for healthcare costs is to retirement planning, the next step is laying the groundwork for how you'll save toward those necessary expenses. One way is to take a broad approach by allocating a lump sum of money to cover the average lifetime healthcare costs; however very few are in a position to allocate \$300,000 or more to a cash reserve to fund future healthcare needs.

A more practical approach, on the other hand, is to produce an annual expense estimate that's specific to your unique health needs and history. For example, if you are healthier, your healthcare costs may be lower than most of your peers. You and your financial advisor may start with the average cost for a healthy person your age and gender and adjust your estimated expenses up or down from there, depending on how conservative you wish to be. The Center for Retirement Research estimates that married couples age 65 and over spent \$7,600 a year on average for Medicare premiums and co-pays. That figure includes insurance premiums for Medicare Part B coverage and Part D prescription benefits, plus out-of-pocket expenses for co-pays, deductibles and miscellaneous home care costs. However, that average doesn't include any additional costs for treatment of chronic conditions such as heart disease, arthritis or diabetes; nor does it account for the cost of a nursing home or long-term care facility, which can be a major expense. Keep in mind, the longer you expect to live, the higher your costs could be.

AN OUNCE OF PREVENTION

While understanding these costs can help you save for the future, now may also be the time to take care of your physical self with regular exercise and a sensible diet. After all, an ounce of prevention is worth a pound of cure. Consult with your doctor to identify next steps to becoming a healthier you.

Your financial advisor can help you estimate your essential expenses, including healthcare costs, to determine if your expected retirement income will be enough to cover them.



To be conservative, you might want to use a higher figure as you establish your retirement income plan. If you have a family history of chronic health conditions, such as arthritis, diabetes or heart issues, you may want to plan to save even more. Chronic health problems require regular treatment and medication, all of which costs money and can quickly deplete your retirement savings if a cash reserve isn't available to defray the costs. Unfortunately, chronic conditions are more likely to develop the longer you live. Statistics published by Johns Hopkins University show that the likelihood of developing one or more chronic

illnesses increases with age. Among people 80 years old or older, 92% have at least one chronic condition, while 73% have two or more.

Once you and your advisor arrive at your annual expense estimate, you'll determine if your steady flow of reliable income will cover those essential expenses. If there is a gap in what your reliable income will cover, you will need to then tap into your retirement assets to fill that gap. Additionally, you may consider setting aside smaller amounts into a reserve fund for medical emergencies.

LONG-TERM CARE

Another important factor to consider when planning for healthcare in retirement is the potential need for long-term care. Studies suggest one-third of people turning 65 in 2010 will need at least three months of nursing home care, 24% more than a year, and 9% more than five years. But Medicare does not cover long-term care, and nursing home care averaged \$80,000 a year in 2009, according to the U.S. Department of Health and Human Services. A home health aide is expensive as well; in fact, hiring one can cost more than \$230 a day.

If you're concerned about the rising cost of long-term care and the impact it could have on your savings, you should consider long-term care insurance as a form of risk management. Long-term care insurance can help you manage this anticipated expense by covering a range of nursing, social and rehabilitative services for people who need ongoing assistance due to a chronic illness or disability. While you can't know for sure if you'll need long-term care or for how long, you can plan for the unexpected. It just makes sense to work together with your financial advisor to mitigate some of the risks through adequate long-term care insurance in order to avoid this potentially financially – and emotionally – devastating scenario.

Of course, deciding if long-term care insurance is right for you depends on your personal financial circumstances. Some people choose a policy to help:

- Protect assets
- Add options for quality care
- Relieve family and friends from the stress of providing care
- Preserve their independence, dignity and financial freedom

CARING FOR FAMILY

Many investors are also faced with the challenge of caring for parents or siblings who have significant healthcare expenses and limited assets, but still have too many assets to qualify for Medicaid. While everyone wants to do what's best for their family and preserve their quality of life as much as possible, the expenses associated with doing so can be significant. Incorporating these concerns into your planning can help to get a better picture of your expenses in retirement.

ADDITIONAL RESOURCES

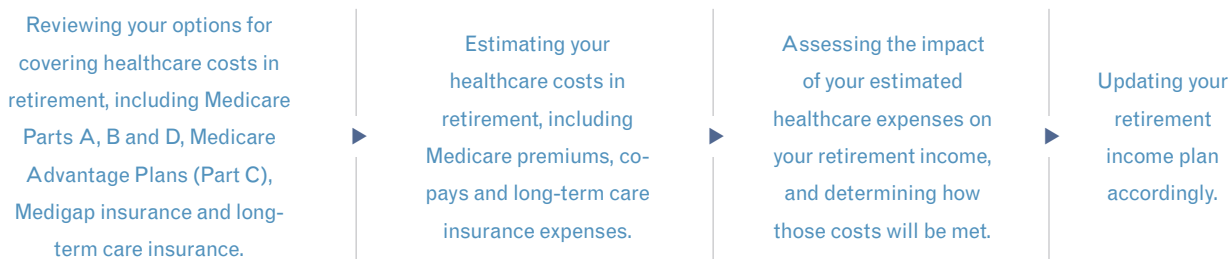
For more information, review these additional resources:

MEDICARE.GOV
ELDERCARE.ORG
AARP.ORG
BENEFITSCHECKUP.ORG
SOCIALSECURITY.GOV

WORK WITH YOUR FINANCIAL ADVISOR

Now that we have explored the impact of healthcare costs on retirement planning, it should be clear that planning for this retirement wildcard is crucial. And each individual's situation will be different.

Your financial advisor can help you work through the necessary details, such as:



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