

Planning for health care in retirement

A guide to covering your
medical expenses



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You can stay on top of health care expenses

The *confidence of knowing* your health care is covered – one of the most valuable things you can take into retirement

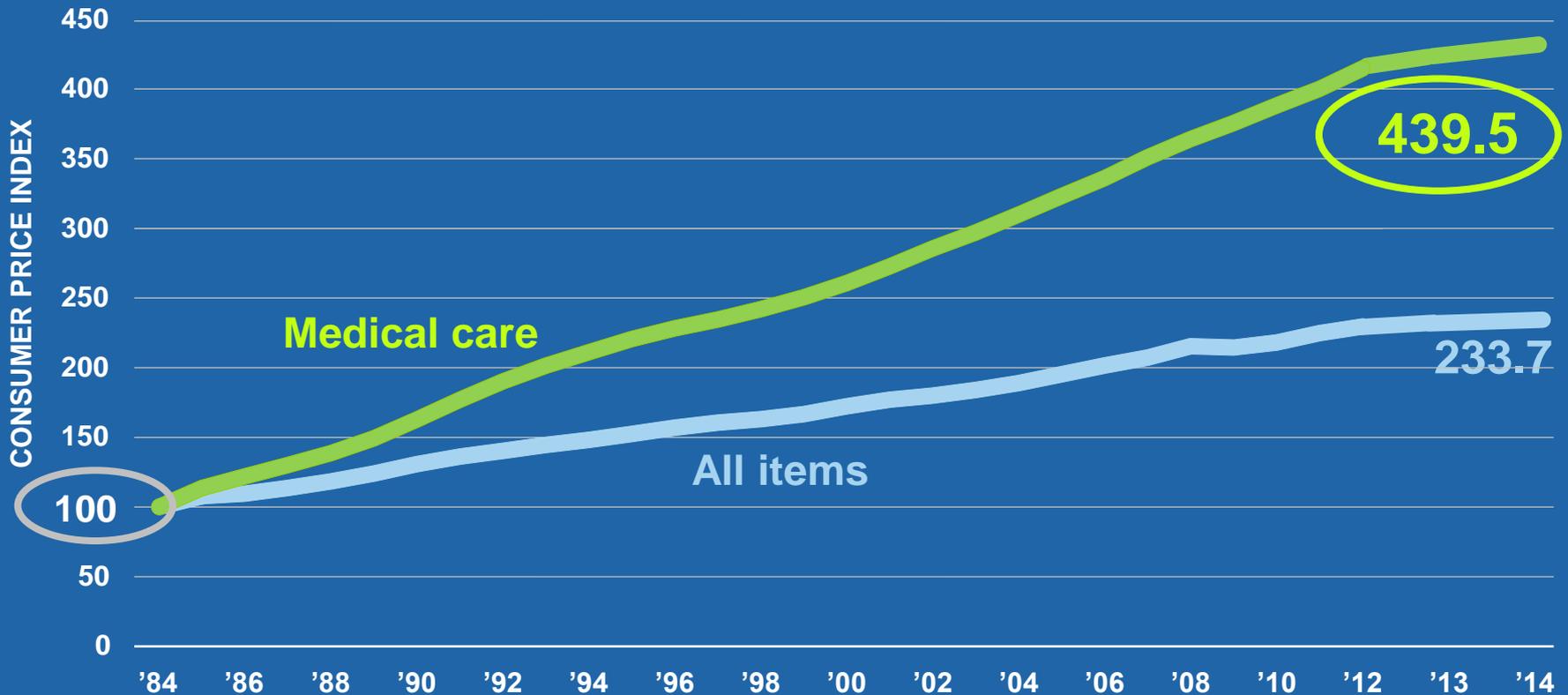
Today's agenda:

- Gain insight into health care costs
- Look into Medicare – what it covers and what it costs
- Outline a 4-step process for creating a health care plan



Rising health care costs – a reality of retirement

Health care costs have **quadrupled** since the early '80s



Source: Department of Labor, Bureau of Labor Statistics, Consumer Price Index, as of 9/30/14.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

One of the largest household budget items

1
Food

2
Health
care

3
Housing

Health care represents 20% of your total monthly expenses, on average.



Multiple factors drive up health care costs



Medical services

- Cost of knee replacements rose 70% over last decade¹

Diagnostic testing

- Cost of MRI/CT/PET scans tripled over last decade¹

Prescription drugs

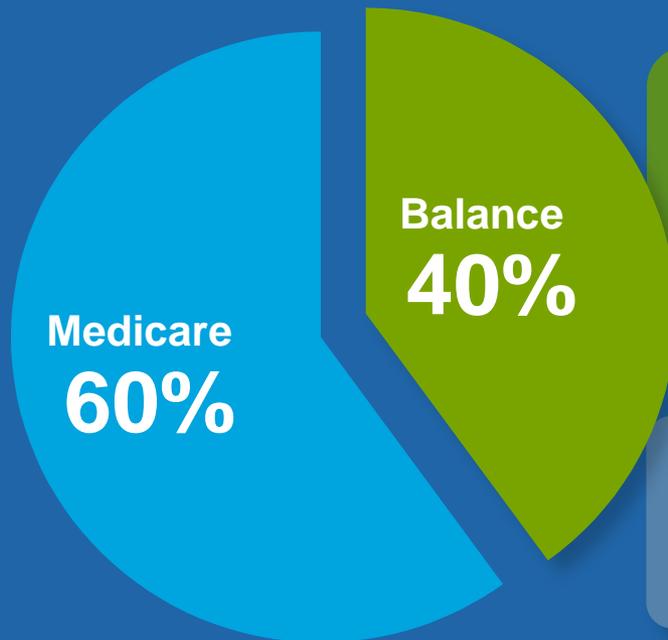
- Number of prescriptions continues to grow, up 55% from 1998 to 2013.²

1. U.S. Dept. of Health and Human Services, 2009. Data for decade ending 12/31/2006.

2. Sources: NDCHealth and Kaiser Family Foundation.

Medicare won't cover all health care expenses

Medicare may only cover approximately 60% of your health expenses¹



Out-of-pocket health care expense estimate for a 65-year-old couple²
\$220,000

People may underestimate these costs by *more than 50%*³

1. EBRI, "Savings Needed for Health Expenses for People With Medicare Coverage," October 2012.

2. Fidelity's Benefits Consulting, 2014. The estimate assumes no employer-provided retiree health care coverage and applies to retirees with traditional Medicare insurance coverage with life expectancies of 17 years for men and 20 years for women.

3. Fidelity-sponsored HSA Survey, conducted by GfK Public Affairs & Corporate Communications, February 2013.

The HSA survey was conducted by GfK Public Affairs & Corporate Communications from February 4 to 20, 2013. The study was conducted among a nationally representative sample of 1,836 U.S. adults ages 25–64 with a household income of \$25,000 or more. Respondents also have primary or shared responsibility for household financial decisions and receive health care benefits through their own or their spouse's employer. Nearly half (48%) of the pre-retirees aged 55–64 surveyed estimated they would need only \$50,000 for health care expenses in retirement.

Your out-of-pocket costs may vary

Individual costs depend on:

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graph TD; A[Individual costs depend on:] --> B[Personal factors]; A --> C[Your risk comfort level];
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Personal factors

- Age at retirement
- Years in retirement
- General health

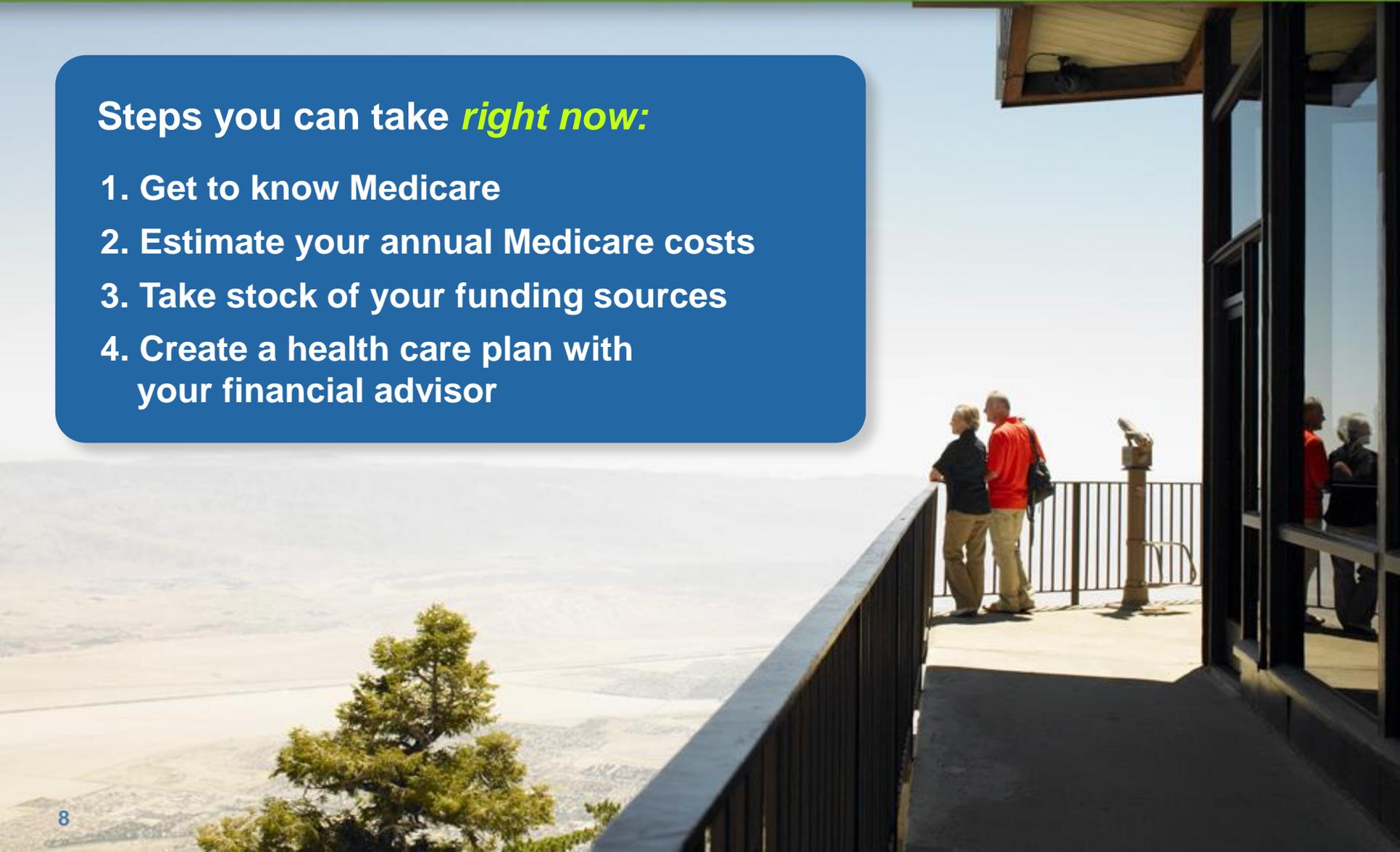
Your risk comfort level

How much coverage will you plan for?

Learn about your options and get started on your plan

Steps you can take *right now*:

1. Get to know Medicare
2. Estimate your annual Medicare costs
3. Take stock of your funding sources
4. Create a health care plan with your financial advisor



Get to know Medicare

What are your Medicare options?

Part A Hospital insurance

Part B Medical insurance

Part D Prescription drug coverage

Medigap Medicare supplemental insurance

Part C Medicare Advantage Plans



Key Dates for Medicare

Part A & B

Regular Medicare

- 3 months before reaching age 65 (7-month enrollment window)
- Late enrollment penalty, some exceptions apply

Part D

Prescription drug coverage

- Initial enrollment deadline is the same as Parts A & B
- October 15–December 7 annual enrollment window for changes

Part C

Medicare Advantage plans

- Similar to regular Medicare (Parts A & B)
- October 15–December 7 to add, drop, or change
- January 1–February 14 to drop existing plan and switch to regular Medicare if plan is nonrenewing
- Calendar-year enrollment
- Limited ability to make changes

Medicare Part A

Hospital insurance

In-hospital stay in 2015 (per benefit period)

Days 1–60	\$1,260 deductible
Days 61–90	\$315 per day copayment
Days 91–150	\$630 per “lifetime reserve day”
Days 150+	All costs

Medicare Part B (medical insurance)

In 2015, you can expect to pay:

\$147 deductible **20%** coinsurance for doctors' services and outpatient care

Standard monthly premium*

Individual filer AGI	Joint filer AGI	Premium
\$85,000 or less	\$170,000 or less	\$104.90
\$85,001 up to \$107,000	\$170,001 up to \$214,000	\$146.90
\$107,001 up to \$160,000	\$214,001 up to \$320,000	\$209.80
\$160,001 up to \$214,000	\$320,001 up to \$428,000	\$272.70
above \$214,000	above \$428,000	\$335.70

** 2015 premiums are based on yearly income in 2013 (modified adjusted gross income as reported on an IRS tax return).
Source: Medicare.gov, 2014.

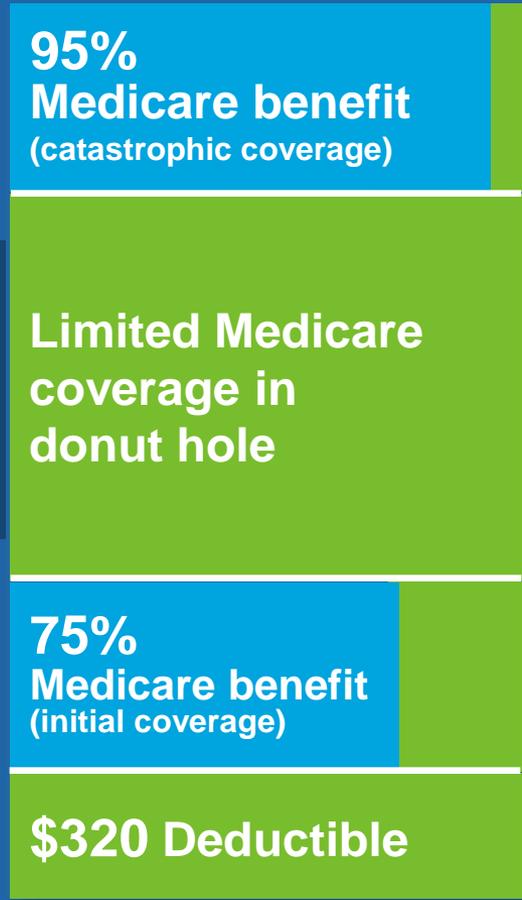
Understanding Medicare

Prescription drug coverage in 2015

- You pay
- Medicare pays

Premiums vary by insurer

The donut hole is large and costly.



Beneficiary pays 5% (min. copay); \$2.65 generic or \$6.60 brand
\$6,680 in total drug costs
\$4,700 out-of-pocket reached

Beneficiary pays \$3,720

\$2,960 in total drug costs

Beneficiary pays 25% or \$660

Beneficiary pays 100% or \$320

Source: Medicare.gov, 2014.

Medigap

Supplemental Medicare insurance

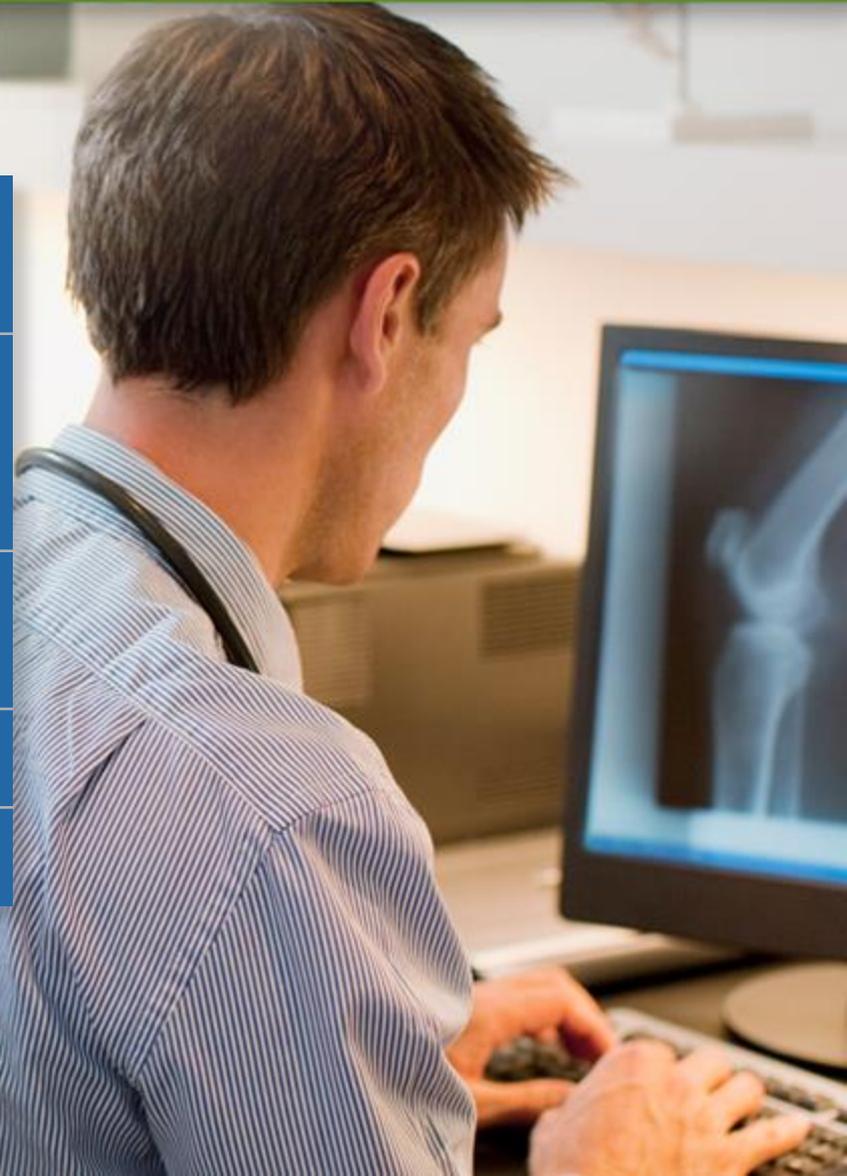
10 standard plans offering different levels of coverage

Premium cost for same coverage varies by insurance company and state where purchased

Flexibility to see any doctor who accepts Medicare

No prescription drug coverage

No coverage for dental, hearing, or vision



Medicare Part C

Medicare Advantage plans

HMOs, PPOs, private fee-for-service plans, Medicare specialty plans

Address Part A and Part B expenses and may cover prescription drugs

Costs may increase if you use out-of-network doctors

Hearing, dental, and vision may be covered



Questions to weigh when considering plan options

- Do you have coverage for dental, hearing, and vision care – services not covered by Medicare?
- Is it important for you to continue seeing your current physicians?
- Have you estimated the total out-of-pocket costs for prescription drugs?
- Do you want flexibility to choose providers – particularly specialists?
- Do you have protection from catastrophic illness?

Estimate your annual Medicare costs

Hypothetical example:

Medicare costs for a couple 65 years old with <\$170K income

Part A	Covered by Medigap Plan F	\$0
Part B	Premium: deductible and coinsurance covered by Medigap	\$1,259
Part D	Premium and deductible ¹	\$2,014
Medigap Plan F	Premium ²	\$2,180
Annual total	<i>Per person</i>	\$5,453
	<i>Per couple</i>	\$10,906

1. Based on the estimated average annual per-beneficiary cost spending for Part D for 2015. The Department of Health and Human Services, 2014 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

2. 2015 annual amount; Medicare.gov, 2014.



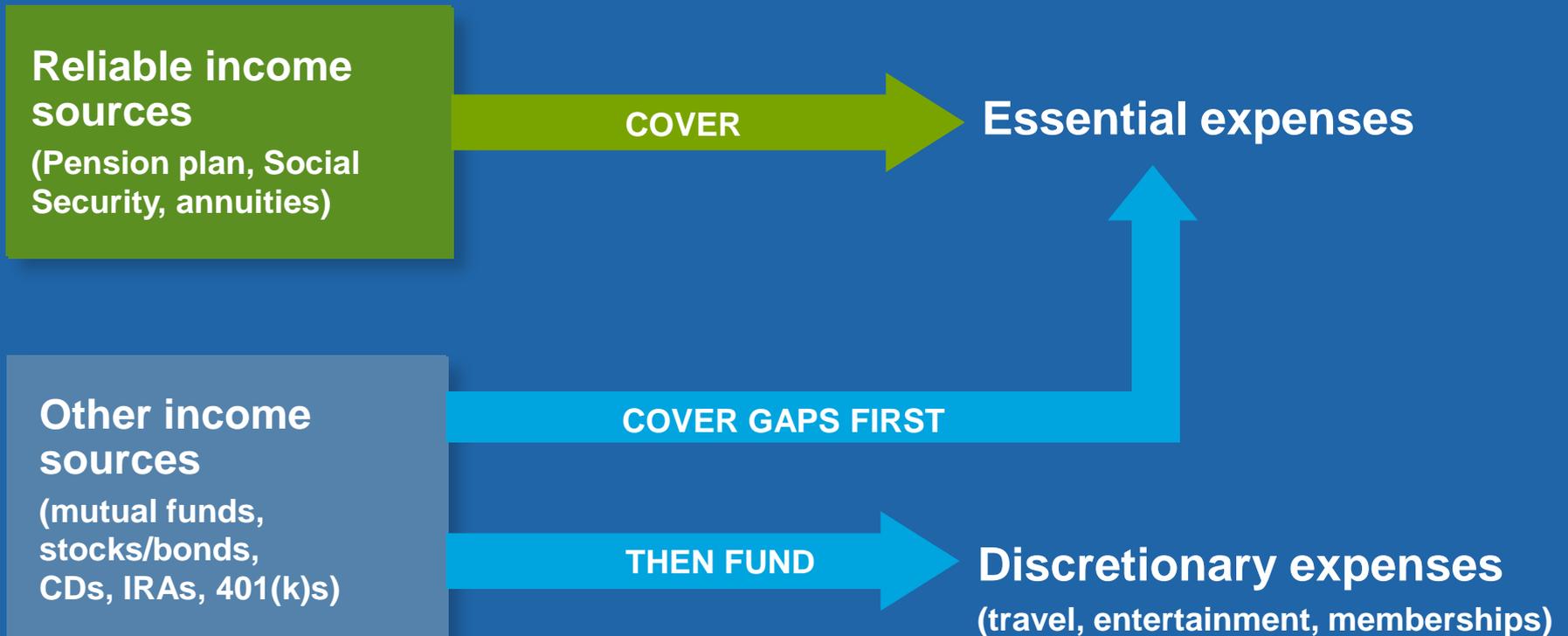
Resources to help get you started

Online resources

- [Medicare.gov](https://www.Medicare.gov)
- [Eldercare.gov](https://www.Eldercare.gov)
- [AARP.org](https://www.AARP.org)
- [State Health Insurance Assistance programs \(SHIPtalk.org\)](https://www.StateHealthInsuranceAssistanceprograms(SHIPtalk.org))
- [Benefitscheckup.org](https://www.Benefitscheckup.org)
- [SocialSecurity.gov](https://www.SocialSecurity.gov)

Take stock of your funding sources

Use your sources of dependable income to cover health care and other essential expenses



Take stock of your funding sources

Group income sources by dependability

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graph TD; A[Group income sources by dependability] --> B[Reliable income sources]; A --> C[Other income sources];
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Reliable income sources

- Pension
- Social Security
- Annuities

Other income sources

- Mutual funds, systematic withdrawals
- Bonds
- Real estate
- Life insurance
- Health Savings Accounts
- Part-time work

Create a health care plan with your financial advisor

Your advisor can help you:

- **Check** your health care expense estimates
- **Bucket** essential and discretionary expenses
- **Review** your sources of income
- **Create** a plan to ensure that your health care and other essential expenses are covered
- **Develop** a financial strategy for discretionary spending



Appendix

Additional health care topics

Retiring before Medicare eligibility

Pre-retirees need help

49%

**workers
retired earlier
than expected¹**

72%

**large employers
do not offer retiree
health care to active
employees²**

38%

**employers plan to
discontinue retiree
health insurance for
pre-65 retirees³**

1. Employee Benefit Research Institute, Retirement Confidence Survey, March 2014.

2. Kaiser Family Foundation, 2013. Large employers are those with 200 or more employees.

3. Towers Watson, July 2013. Includes 420 mid- to large-size companies, employing 8.7m people across industries, were surveyed.

Closing the coverage gap

You may have options for short-term coverage if you retire early

- **Pay to continue coverage under COBRA**
- **Join a working spouse/partner's plan**
- **Look for high-risk pools and pre-existing condition plans**
- **Find a part-time job: Less than 1/4 of part-time employees have health benefits***
- **Get coverage through a health-care exchange**
- **Purchase private insurance**

* Bureau of Labor Statistics, July 2014.

Patient Protection and Affordable Care Act

Designed to provide expanded coverage to uninsured

**Coverage regardless
of health or pre-existing
conditions**

Standardization of plan coverage

Minimum of 60%
out-of-pocket expenses,
including essential
health benefits

No lifetime or
annual limits

Coverage for dependent children until age 26

Expanded Medicaid coverage

**Premium tax credits to low- and moderate-
income households**

Imposed mandates

Coverage plans

Plan	Coverage*	Avg. monthly premium before tax credits†	Typical deductible	Typical coinsurance
Bronze	60%	\$289	\$5,000	30%
Silver	70%	\$345	\$2,000	20%
Gold	80%	\$428	\$0	20%
Platinum	90%	\$452	\$0	10%

- Out-of-pocket costs cannot exceed \$6,350 for individual / \$12,700 for family
- People with incomes below 133% of the federal poverty level (FPL) now covered by Medicaid
- People between 100% and 400% of FPL eligible for assistance

* Percentage of total average costs the health plan will cover. Plans and coverage amounts vary by state.

† Assistant Secretary for Planning and Evaluation (ASPE) computation of Centers for Medicare & Medicaid Services (CMS) federally-facilitated marketplace data as of 5/12/14.

Source: Kaiser Family Foundation, August 2013; figures for individual coverage.

FPL for 2014 is \$11,670 for individual and \$23,850 for family of four.

Available tax credits

**For families with income between \$23,850 and \$95,400
(100%–400% of FPL)¹**

HYPOTHETICAL EXAMPLE

Meet the Smiths:

Annual income is **300%** of FPL = \$70,650

Max contribution is 9.50% of income or

\$6,711.75 [approx. \$559/month]

Premium tax credit = **\$6,788.25** [\$13,500² minus max contribution amount]

Must obtain plan from a health-care exchange

**MAXIMUM CONTRIBUTION
TO PREMIUM FOR FAMILIES**

% of FPL	% of Income
100% to 133%	2.00%
133% to 150%	3.00%–4.00%
150% to 200%	4.00%–6.30%
200% to 250%	6.30%–8.05%
250% to 300%	8.05%–9.50%
300% to 400%	9.50%

1. FPL for 2014 is \$11,670 for individuals and \$23,850 for a family of four; source: U.S. Dept. of Health & Human Services website; March 2014.

2. \$13,500 is the national average premium for bronze plan; source: HHS.

Individual mandate penalty

	Adult	Child	Family Total	% of income [†]
2014	\$95	\$47.50	\$285	1.0%
2015	\$325	\$162.50	\$975	2.0%
2016	\$695	\$347.50	\$2,085	2.5%

Penalty amount will increase each year.

Penalties for no coverage are the greater of:

- Percent of yearly household income, not to exceed national average premium for Bronze plan*
- Specific amount per year, not to exceed a maximum amount

Source: Healthcare.gov.

* Average monthly premium by age for Bronze plan: age 30 – \$262.69; age 40 – \$295.51; age 50 – \$413.16; age 60 – \$627.10. Source: HealthPocket.

[†] Income in excess of federal filing threshold.

Employer mandate penalty

Penalty imposed for employers not offering health insurance

Employers with *more than* 100 employees

- Provide benefits to 70% full-time employees by 2015; 95% by 2016
- \$2,000 per-person penalty for no coverage (first 30 employees exempt)
- Health care coverage must be affordable and provide minimum coverage

Employers with 50–99 employees

- Effective 2016
- \$2,000 per-person penalty for no coverage (first 30 full-time employees are exempt)

Employers with *fewer than* 50 employees

- No penalty for not offering coverage
- Eligible for subsidy or tax credit if coverage is offered

Funding the Affordable Care Act

New taxes to help offset [health care] costs

Taxes for high-income earners

(\$200k single filer/\$250k joint filers)

- 0.9% increase on the existing Medicare income tax
- New 3.8% Medicare tax on unearned or investment income above 200k for single filer/\$250k for joint filers

40% excise tax on “Cadillac” plans

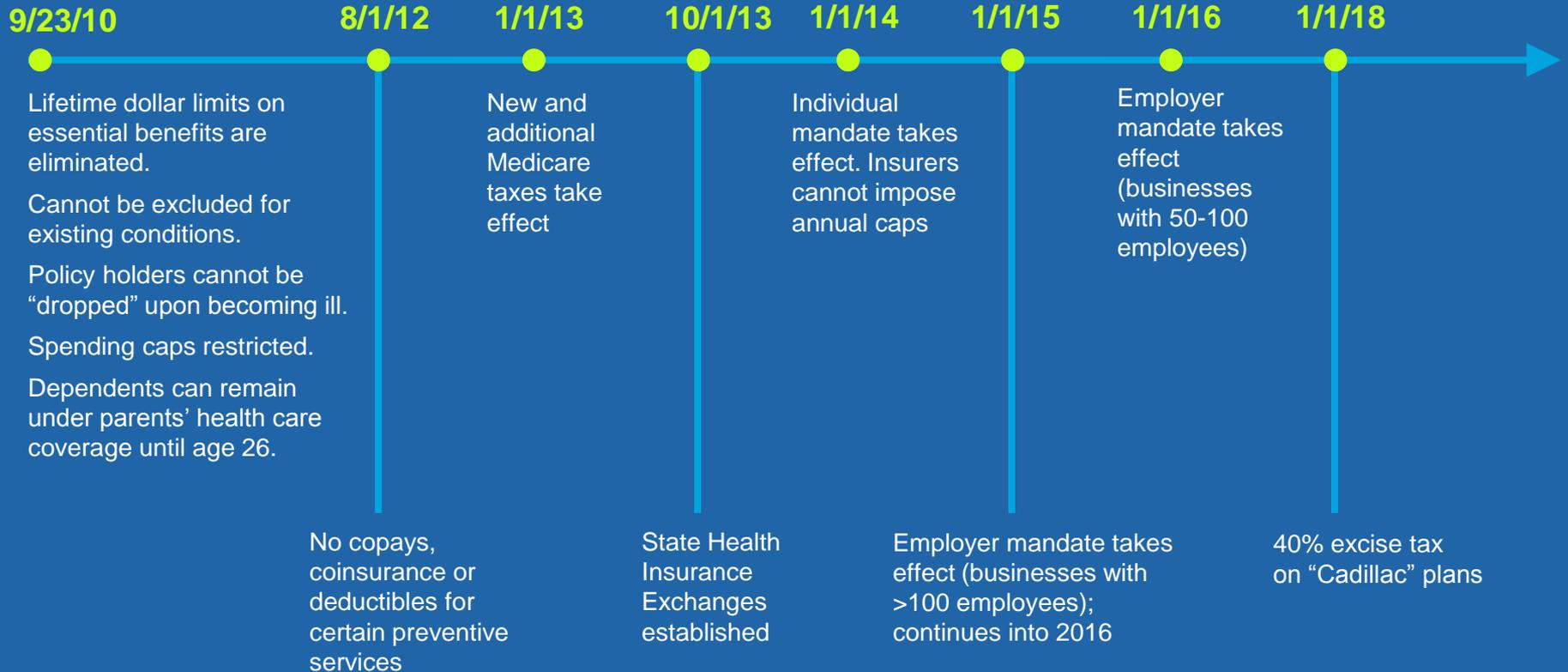
- Effective 2018 for high-premium plans (annual premium exceeds \$10,200 for an individual or \$27,500 for a family)

Annual fee paid by health insurance companies to participate in health insurance exchanges

33 million more Americans will have health insurance by 2016*

* Projection from Congressional Office Budget.

Timeline



Important information

Not NCUA or NCUSIF insured. May lose value. No credit union guarantee.

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