

Managing Healthcare Costs in Retirement

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Understanding Healthcare Costs is Essential to Retirement Planning

Increasing Medical Costs

Longer Life Expectancies

Elimination of Corporate Retiree Health Plans

Uncertainty of Medicare

The Challenge:

Estimating healthcare costs and incorporating them into a retirement income plan



Review Healthcare and Long-term Care Costs

HEALTHCARE

can take a healthy bite out of retirement savings.

It is estimated that an average, healthy 65-year-old couple will need **\$315,000** to pay for medical expenses for the remainder of their lives.*

- ▶ **Second-largest** expense in retirement[†]
- ▶ **22% of people are “very confident”** that they will have enough money to take care of medical expenses in retirement[‡]
- ▶ **Does not** include long-term care costs*

* Fidelity Benefits Consulting estimate, 2022. Healthcare and nursing home costs may vary by state.

† Bureau of Labor Statistics, Consumer Expenditure Survey 2020; Accessed 05/2022. Table 1300 Mean annual expenditures by age; Age 75+

‡ EBRI 2022 Retirement Confidence Survey, April 28, 2022



Threats To Cash Flow: Healthcare Costs

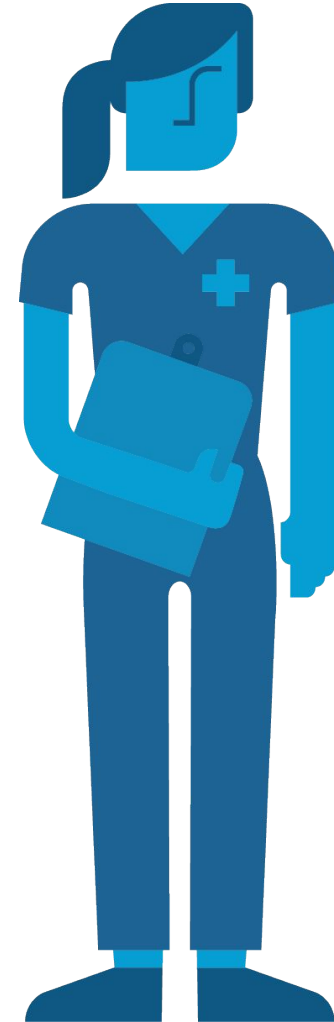
Basic home care averages over \$59,840 per year¹

Nursing home care averages over \$108,400 per year¹

- 67% of those in residential care communities are women²
- 100 days – maximum Medicare coverage period

1 Genworth 2021 Cost of Care Survey; Home Health Aide Services Median Annual Cost; Nursing Home (Private Room) Median Annual Cost

2. NHCS Data Brief 404: “Residential Care Community Resident Characteristics: United States, 2018”; September 2021.



Understanding Medicare

Medicare Part

A

- Hospital Insurance

B

- Medical Insurance

C

- Medicare Advantage

D

- Prescription Drug Coverage



Types of Medicare Coverage

Unbundled	Bundled
Traditional Coverage	Medicare Advantage
<ul style="list-style-type: none">• Part A: Hospital Insurance• Part B: Medical Insurance• Part D: Drug Coverage• Medigap: (optional)	<ul style="list-style-type: none">• Part C: Medicare Advantage• An “all-in-one” plan<ul style="list-style-type: none">- Includes Parts A and B- Often includes Part D



Medicare Part A

Part A – Hospital Insurance



- Provides hospital coverage
- No out-of-pocket premiums

BUT once in the hospital:

- Days 1 – 60: \$1,600 per hospital stay deductible
- Days 61 – 90: \$400 per day co-payment
- Days 91 – 150: \$800 per “lifetime reserve day”
- Days 151+: All costs paid by patient

**90-day hospital stay could cost
\$13,600**

Source: U.S. Dept. of Health and Human Services, Notice CMS-8080-N, September 27, 2022

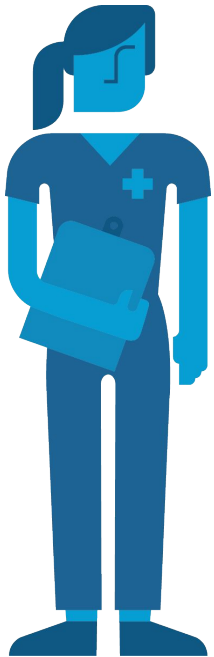


Medicare Part A

Part A – Hospital Insurance

Must spend 3 consecutive days in acute care hospital *

Within 30 days of admission to skilled nursing home *



- Days 1 – 20: \$0 deductible or other costs
- Days 21 – 100: **\$200** per day **
- Day 101+: **All costs paid by patient**

* "Medicare Coverage of Skilled Nursing Facility Care"; Centers for Medicare & Medicaid Services; CMS Product No. 10153; July 2019

** U.S. Dept. of Health and Human Services, Notice CMS-8080-N, Sep. 27, 2022



Medicare Part B

Part B – Medical Insurance

- Provides non-hospital medical coverage
 - Except routine vision, dental, foot care, and hearing aids
- Annual deductible \$226
- 20% coinsurance on doctor's services and outpatient care
- Monthly premium based on Adjusted Gross Income (AGI)
 - May affect Part D premium

If your Income in 2021 was		Your 2023 Monthly Part B Premium Is ¹	Your 2023 Monthly Part D IRMAA Is ²
File Individual Tax Return	File Joint Tax Return		
\$97,000 or less	\$194,000 or less	\$164.90	n/a
above \$97,000 up to \$123,000	above \$194,000 up to \$246,000	\$230.80	\$12.20
above \$123,000 up to \$153,000	above \$246,000 up to \$306,000	\$329.70	\$31.50
above \$153,000 up to \$183,000	above \$306,000 up to \$366,000	\$428.60	\$50.70
above \$183,000 up to \$500,000	above \$366,000 up to \$750,000	\$527.50	\$70.00
Greater than \$500,000	Greater than \$750,000	\$560.50	\$76.40

1. U.S. Dept. of Health and Human Services, Notice CMS-8082-N, September 27, 2022

2. U.S. Dept. of Health and Human Services, 2023 Medicare Parts A & B Premiums and Deductibles 2023 Medicare Part D Income-Related Monthly Adjustment Amounts _ CMS, September 27, 2022



Medicare Part D – 2023

Part D – Drug Coverage*

2023 Estimated Average Monthly Part D Premium \$31.50**

First \$4,660 of Drug Costs

- Annual \$505 deductible
- Beneficiary pays 25% of the rest or \$1,038.75

Donut Hole

Next \$5,856.25 of Drug Costs

Beneficiary pays 100% of out-of-pocket expenses

ACA drug discounts

Name brand 75%

Generic 75%

After \$10,516.25 of Drug Costs†

(\$7,400 total out-of-pocket)

- Beneficiary pays greater of 5% of costs
- \$4.15 generic/\$10.35 brand name
- Medicare pays the balance of costs

* CMS Announcement of CY 2023 Medicare Advantage Capitation Rates and Part C and Part D Payment Policies, April 4, 2022

** CMS Releases 2023 Projected Medicare Basic Part D Average Premium Jul 29, 2022

† Participants qualifying for Low Income Subsidies (LIS) attain out-of-pocket threshold at \$10,516.25 of drug spending; participants who do not qualify for the LIS \$11,206.28



Medicare Supplement Insurance (Medigap)

Medigap Insurance

- Private insurance to “fill in gaps” of Parts A & B
- Flexibility to see any doctor who accepts Medicare
- Generally, no coverage for drugs, dental, hearing, or vision
- Plans vary depending on state and coverage
- 8 standard plans offering different coverage*
- Massachusetts, Minnesota, and Wisconsin offer own standardized plans

Medigap is not available to those participating in Medicare Advantage (Part C)

* Medigap Plan C and Plan F will no longer be available to new enrollees after December 31, 2019. At that time, the number of plans available to new enrollees will fall from 10 to 8. Plan C and Plan F will remain available to individuals already enrolled in Medicare.

Source: “Choosing a Medigap Policy: A Guide to Health Insurance for People with Medicare, 2021”; Centers for Medicare & Medicaid Services; CMS Product No. 02110, Rev. June 2021.



Total Medicare Costs Example – 2023

Unbundled Coverage for Married Couple with AGI less than \$194,000

Coverage	Average Annual Cost *
Part A	\$0
Part B	\$2,033
Part D ¹	\$378
Medigap ²	\$3,612
Out-of-pocket (prescriptions, vision, dental) ³	\$2,408
Total – Per Person	\$8,431

¹ CMS Releases 2023 Projected Medicare Basic Part D Average Premium Jul 29, 2022

² Median cost for low-deductible Plan G male age 65 non-smoker in Overland Park KS (66013); Median cost for a high-deductible (\$2,490) Plan G male age 65 non-smoker is \$642. Medicare.gov

³ Medicare Plan Finder; <https://www.medicare.gov/find-a-plan/questions/medigap-home.aspx> October 2022

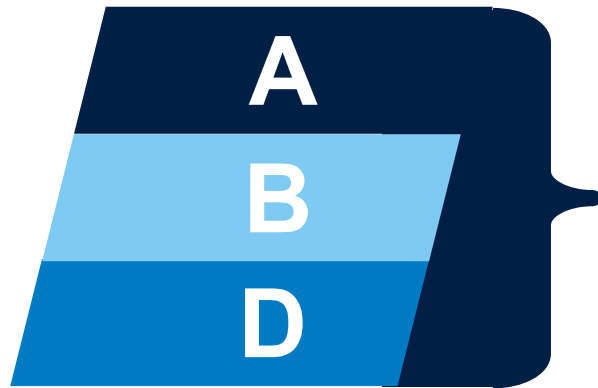
* Mean Out-of-Pocket spending for beneficiary in “good health”. AARP Public Policy Institute: “Medicare Beneficiaries’ Out-of-Pocket Spending for Health Care”, December 2021



Medicare Part C

Part C – Medicare Advantage

46% of Medicare enrollees choose Part C*



Combines A, B, & D



- Offered through [private insurers](#)
 - Local Coordinated Care Programs “LCCP” make up 75% of health plans (combines HMOs and PPOs)
- Hearing, dental, vision, and drug prescriptions may be covered
- Average Premium for Part C in 2022 is \$18 per month**
- Costs may increase for out-of-network doctors
- Annual out-of-pocket expenses range between \$3,650 and \$8,300†

Source: “Medicare and You, 2023”; Centers for Medicare & Medicaid Services; CMS Product No. 10050; December 2022

* Medicare Enrollment Dashboard, Hospital/Medical Enrollment Dashboard Data File June 2022; accessed October 2022

** CMS, “Biden-Harris Administration Announces Lower Premiums for Medicare Advantage and Prescription Drug Plans in 2023”, Sep 29, 2022

† CMS, “Contract Year (CY) 2023 Medicare Advantage (MA) Maximum Out-of-Pocket (MOOP) Limits and Service Category Cost Sharing Standards Final Rule”, Table 2; April 7, 2022



Enrolling in Parts A & B



Enrollment: 3 months before to 3 months after
65th birthday

Working past age 65

- Sign up for Part A: Usually free
- Part B: Must enroll 8 months from last month of work, otherwise:
 - Coverage may be delayed for 3 to 15 months
 - until next enrollment period (Jan 1 – Mar 31)
 - 10% premium penalty for every 12 months of delay

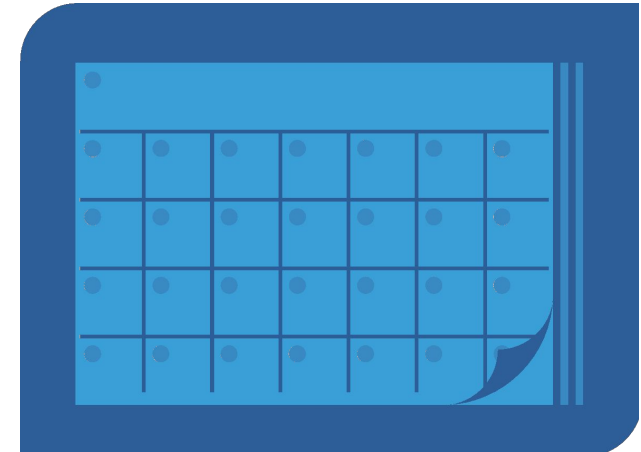
Enrolling in Part D

Enroll same time as Parts A and B unless you have “creditable” coverage

- “Creditable” expected to pay as much as Part D
- Annual notice that coverage is “creditable”

Penalty if 63 days without “creditable” coverage

- 1% x each month without coverage
x “national base premium”
- Penalty added to monthly Part D premium for life



Source: Medicare & You 2022; Centers for Medicare & Medicaid Services; CMS Product No. 0050, December 2021.



Enrolling in Medigap/Medicare Advantage

Medigap

- Enrollment: 6-month initial enrollment period starts the month you turn 65:
 - During this period, you cannot be turned down for a preexisting condition.
 - If you miss it, you could pay more or be denied coverage.
 - ACA ban on denying coverage does not apply to Medicare.

Medicare Advantage

- Enrollment: Initial enrollment period or during open enrollment (Oct 15 – Dec 7)

Source: Medicare & You 2022; Centers for Medicare & Medicaid Services; CMS Product No. 0050, December 2021.



Long-Term Care Insurance

Coverage when help is needed with 2 or 3 “activities of daily living”

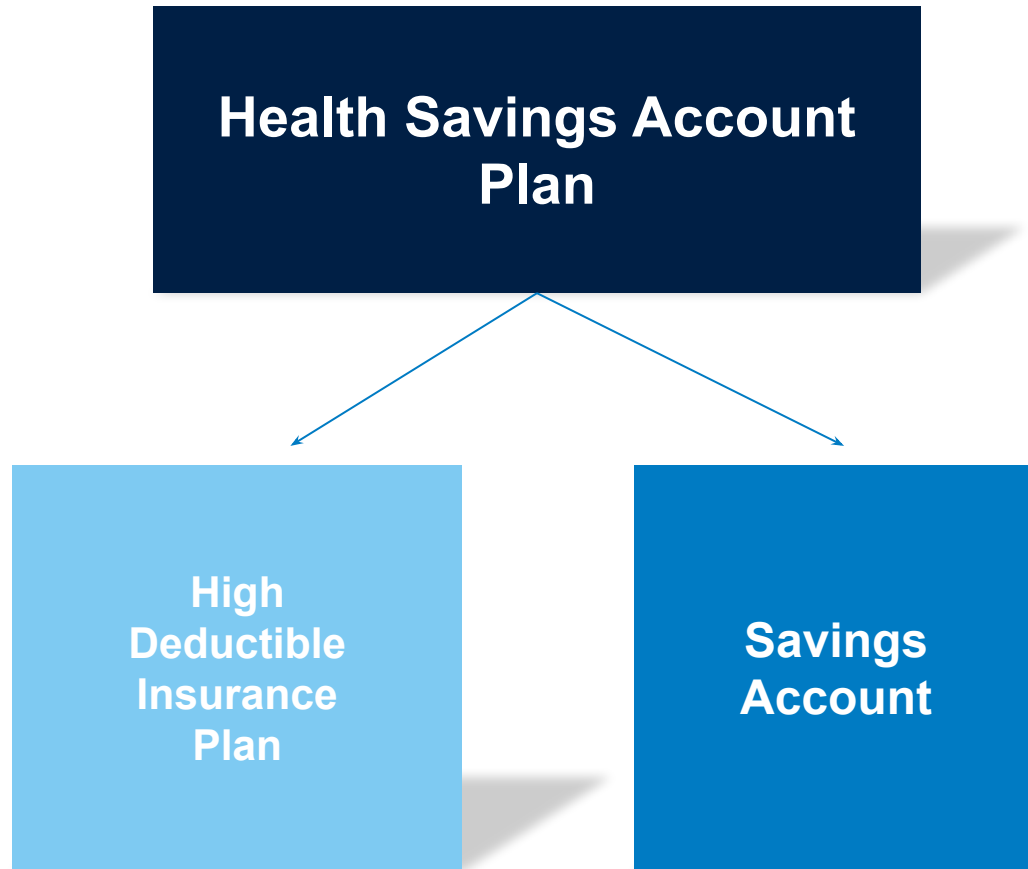
- Typically, an “elimination period” of 20, 60, or 90 days
- Benefit amount (daily or monthly)
- Benefit period (i.e., 3, 5, 7 years)
- Inflation protection may be available
- Average annual LTC premium for couple aged 55: \$5,025*



“2022 National Long-Term Care Insurance Price Index”, American Association for Long-Term Care Insurance, www.aaltci.org ; Rates above are for an initial pool of benefits equal to \$165,000 (each at age 55). 3% annual COLA. Value of benefits when policyholder reaches age 85 equals \$400,500 each. Prices for State of IL. Prices can vary by State. Calculated: January 2022



Health Savings Accounts



Tax Deductible Up To:

- \$3,850 Self-only coverage
- \$7,750 Family coverage
- \$1,000 Catch-up age 55 and over

Tax Deferred:

- Earnings accumulate tax-deferred

Tax Free:

- Withdrawals for qualified medical expenses including co-pays, vision, and dental are tax-free

Portable:

- You can take it with you

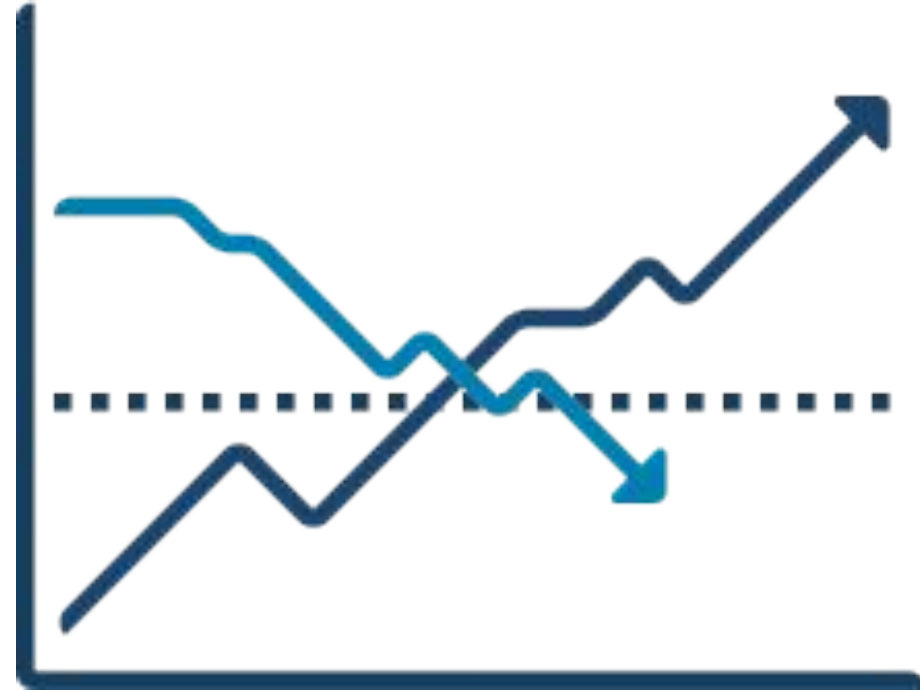
Source: 2023 Limits; Rev. Proc. 2022-24, I.R.B. 2022-20, May 16, 2022



Strategies to Cover Healthcare Costs Using Your Savings

Risks:

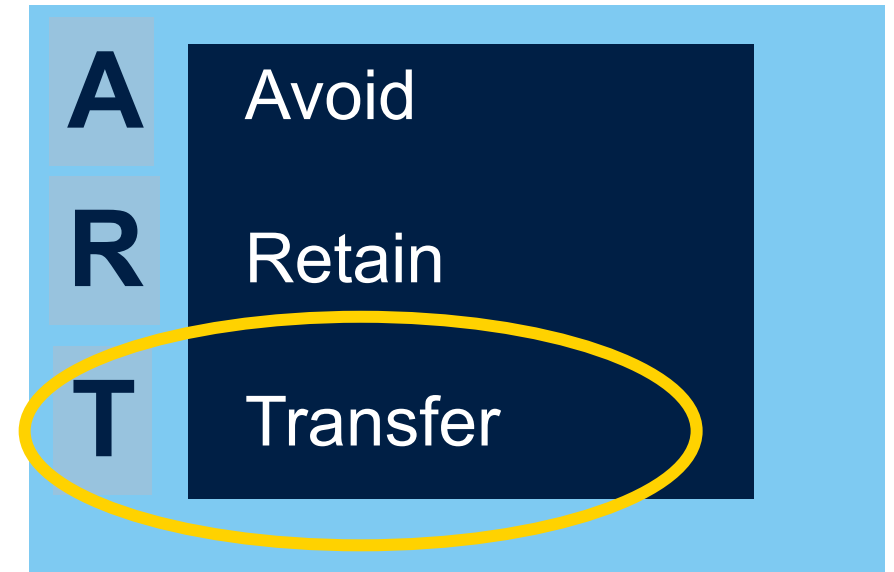
- Market Volatility
- Interest Rates
- Inflation
- Sequence of Returns
- Longevity



Managing Retirement Risks

Transferring Risk With an Annuity Can Help:

- Manage the impact of volatility on retirement savings and income
- Provide opportunities for growth of retirement assets while hedging downside risk
- Increase the probability of successful retirement outcomes



it is important to remember that annuity contracts contain exclusions, limitations, reductions of benefits and terms for keeping them in force. You should carefully consider your financial needs before investing in annuity products and benefits.



Summary

- Healthcare will be a major expense in retirement
- Understanding healthcare costs and coverage will be an important part of your retirement planning
- Consider protection strategies to help cover healthcare costs



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