



COSTS OF HEALTH CARE IN RETIREMENT

When planning for retirement income needs, it is essential to incorporate the costs of health care into the calculation. Rising medical expenses, including premiums and out-of-pocket costs, will have a significant impact on retirement savings.

SAVINGS NEEDED FOR HEALTH CARE COSTS IN RETIREMENT

Determining how much money an individual or couple needs in retirement to cover health care expenses is complicated. Among other factors, it depends on the age at which he or she retires; length of life after retirement; the availability and source of health insurance coverage after retirement to supplement Medicare, once available; health status; out-of-pocket expenses; the rate at which health care costs increase; and interest rates and other rates of return on investments. IRI and Health View Services estimate the cumulative health care expenses for a 65-year old man in 2011 was \$370,000 and for a woman, \$417,000. Medicare, the health insurance program for individuals age 65 and over, is the starting point for developing a savings plan to fund health care expenses in retirement.

MEDICARE SERVICES COVERED BY THE PROGRAM

Medicare consists of four parts.

- **Part A Hospital Insurance** covers services provided in a hospital, skilled nursing facility, home health care, and hospice.
- **Part B Medical Insurance** covers services your doctor would provide such as outpatient hospital services, diagnostic tests, and durable medical equipment such as a wheel chair.
- **Part C Medicare Advantage** is an optional managed care program you may choose for your Medicare coverage. Medicare Advantage Plans are offered by private companies approved and regulated by Medicare. You will get your Part A and Part B coverage from the Medicare Advantage Plan, and most offer prescription drug coverage.
- **Part D Prescription Drug Plan (PDP)** covers prescription drugs except for drugs you receive during an in-patient hospital stay. Each Medicare PDP has its own formulary (list of covered drugs). Medicare provides access to the database of PDPs providing information on which drugs each plan covers.

MEDICARE COST SHARING PROVISIONS

What you pay for out-of-pocket costs varies by service provided and is adjusted yearly. Medicare cost sharing provisions include point of service payments such as:

- **Deductibles** – The amount you must pay for health care or prescriptions before Original Medicare, your prescription drug plan, or your other insurance begins to pay.
- **Co-payments** – An amount you may be required to pay as your share of the cost for a medical service or supply. A co-payment is usually a set amount, rather than a percentage. For example, you might pay \$10 or \$20 for a doctor's visit or prescription.
- **Co-insurance** – An amount you may be required to pay as your share of the cost for services after you pay any deductibles. Co-insurance is usually a percentage (for example, 20%).

Medicare assesses monthly premium payments. The monthly premiums for Parts A and B are adjusted yearly. Most people do not pay a premium for Part A. For Parts C and D, the monthly premium varies by plan. The premiums for these plans will vary due to different services each plan may cover. For Parts B and D you may pay a higher premium based upon your income.

MEDICARE SUPPLEMENT OR MEDIGAP

A Medicare supplement (Medigap) insurance, sold by private companies, can help pay some of the health care costs that Original Medicare doesn't cover, like copayments, coinsurance, and deductibles. Some Medigap policies also offer coverage for services that Original Medicare doesn't cover, like medical care when you travel outside the U.S. If you have Original Medicare and you buy a Medigap policy, Medicare will pay its share of the Medicare-approved amount for covered health care costs. Then your Medigap policy pays its share.

If you are enrolled in a Medicare Advantage Plan, you cannot use (and cannot be sold) a Medigap policy. Medigap is a supplement to Original Medicare and differs from Medicare Advantage, which included Medicare Parts A and B. You cannot use it to pay for any expenses (copayments, deductibles, and premiums) you have under a Medicare Advantage Plan. If you already have a Medigap policy and join a Medicare Advantage Plan, you will probably want to drop your Medigap policy.

LONG-TERM CARE COSTS

Long-term care is a general term that refers to services and assistance provided for individuals who have impairment in at least two of the defined activities of daily living (ADLs): eating, bathing, grooming, toileting, and transferring into or out of chairs and beds. Services may be provided in one's home and/or community, through home care and adult day-care programs; in residential settings, such as assisted living facilities; or in institutions, such as nursing homes. Long-term care excludes medical and nursing services needed to manage the underlying health conditions that lead to frailty or disability.

The intensity and cost of services vary widely, depending on an individual's functional and health status, the severity of the disabilities, and the location in which services are provided. According to data from the Department of Health and Human Services, the costs of long-term care can range from \$6,965 per month for a private room in a nursing home to \$67 per day for adult day health care center. The costs of care will also vary by the type and duration of care you need, the provider you use, and where you live.

Note: This document is for educational purposes only. The information does not constitute financial, legal or tax advice. Please consult with your appropriate professional for matters pertaining to your personal situation.

Sources: Centers for Medicare and Medicaid Services, Health View Services, and Insured Retirement Institute.

June 25, 2013

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Reference: **FR2013-0523-0287/H**

Org Id :91039

REVIEW LETTER

1. Costs Of Health Care In Retirement
Rules: FIN 2210, VARIABLE
2 pages

Fee: \$125

Total Fee: \$125

Attention: Danielle Holland

The material submitted appears consistent with applicable standards. However, we have the following comment:

Please note that when used by FINRA member firms, the firm's name must be clearly and prominently set forth pursuant to FINRA Rule 2210(d)(3)(A).

Reviewed by,

Joseph S. George
Supervisor

jws

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