MANAGING HEALTHCARE COSTS IN RETIREMENT

Financial and Retirement Planning Guide

LPL Financial

As healthcare costs continue to rise, adults nearing or in retirement are increasingly concerned about how they will manage these expenses over a retirement period of 20 years or more—and for good reason. As Americans enjoy longer average lifespans, healthcare remains a significant expense in retirement. This is particularly true for women who, on average, live longer than men and may need to fund their healthcare needs for a longer period of time. That makes a comprehensive approach to planning critical for evaluating how key retirement risk factors, such as longevity, rising healthcare costs, or the need for long-term care, may impact your retirement income and lifestyle.

HOW WILL RISING HEALTHCARE COSTS IMPACT YOUR INCOME IN RETIREMENT?

According to the U.S. Bureau of Labor Statistics, healthcare represents the fourth-highest spending category for Americans between the ages of 65 and 74, following housing, transportation, and food. However, healthcare moves up to second place for people aged 75 and older.[1]

Healthcare spending in the U.S. rose 4.5% for the 12 months ending in June 2018 and has increased each calendar year from 1996 through 2017.[2] As a result, out-of-pocket healthcare expenses account for an increasingly higher share of household budget dollars among older adults, at 12.9%, compared with the 6.6% budget share for younger households.[3]

This guide provides important information to help you understand and plan for your healthcare needs and expenses in retirement, including:

- How to estimate healthcare costs in retirement.
- What Medicare does and doesn't cover.
- Planning for long-term care.
- Preparing now: Eight tips to help manage healthcare costs.

WHAT CAN YOU EXPECT TO PAY FOR HEALTHCARE IN RETIREMENT?

Whether you're planning to retire in 2 years or 20 years, expect healthcare costs to rise over time, similarly to the price of other goods and services, such as housing, transportation, and food. While inflation plays a role, other factors—such as competition for services among the aging baby boomer population and higher prices often associated with new and advanced technologies, therapies, and treatments—can also drive up costs.

Projecting lifetime costs

The Centers for Medicare and Medicaid Services (CMS) projects prices for medical goods and services to grow 2.5% annually through 2027, compared with 1.1% during the period of 2014–2017.[4] While this information can be helpful for budgeting near-term expenses, how do you project healthcare spending over the course of 20, 30, or more years in retirement?

According to a 2018 National Bureau of Economic Research report, individuals over age 70 will incur $122,000 in medical spending, on average, including Medicaid payments, over the remainder of their lives. However, the same study found that some people over 70 face substantially higher costs:

- 5% of households will experience out-of-pocket medical bills of more than $300,000.
- 1% will see their out-of-pocket medical expenses total more than $600,000, inclusive of Medicaid.[5]

Your "out-of-pocket" expenses in retirement consist largely of Medicare and/or private insurance premiums, deductibles, and copays; over-the-counter medications; long-term care—such as assisted living and nursing home care—and other costs that are not reimbursed by insurance.

It's important to note that while studies and data can be helpful for ballparking average expenses, it's difficult to predict an individual or couple's future healthcare costs with accuracy. That's because your costs may vary greatly based on your individual circumstances and health history. For example, if you have a chronic condition that requires expensive prescription drugs and treatments that aren't covered by insurance, you can expect to incur higher-than-average healthcare expenses in retirement. Even if you're the picture of health today, keep in mind that an unexpected illness or accident can change things quickly. That's why it's important to not only plan ahead, but understand how important healthcare benefits, such as Medicare, can help you protect your health and your income in retirement.

HOW DOES MEDICARE WORK?

Medicare is composed of four parts. Each "part" covers specific services. Parts A and B are considered "basic" or "traditional" Medicare coverage.

PART A hospital insurance covers inpatient hospital care, skilled nursing facilities, hospice, lab tests, surgeries, and home healthcare. Nursing and home-care benefits, however, are limited to a certain number of days per incident and don't cover long-term care.

PART B medical insurance covers doctor and other healthcare provider services like outpatient care, durable medical equipment, and some home-care and preventive services.

PART C refers to the Medicare Advantage Plan program, which enables beneficiaries to enroll in a private health plan that contracts with Medicare, such as a health maintenance organization (HMO) or preferred provider organization (PPO), and receive all Medicare-covered Part A and Part B benefits and, typically, Part D prescription drug coverage.

PART D covers outpatient prescription drugs through private plans that contract with Medicare, including stand-alone prescription drug plans and Medicare Advantage plans with prescription drug coverage.

UNDERSTANDING MEDICARE

Medicare is a national health insurance program and the primary source of healthcare coverage for most Americans aged 65 and older, as well as younger people who are receiving Social Security disability benefits. According to a 2019 report by the Kaiser Family Foundation, more than 60 million Americans rely on Medicare to help cover their healthcare costs. However, keep in mind that Medicare won't cover all of your healthcare expenses in retirement and that traditional Medicare has relatively high deductibles and cost-sharing requirements, including no limits on beneficiaries' out-of-pocket spending for services covered under Parts A and B.

Medigap Coverage

Medigap policies, available through private carriers, help cover some of the expenses not paid by Medicare Parts A and B, such as copayments, coinsurance, and deductibles. Some policies may also offer coverage for medical care when you travel outside the United States. These policies are called supplemental, or "Medigap," coverage. To enroll in a Medigap plan, you must be enrolled in Medicare Parts A and B. You can't enroll in a Medigap plan if you're enrolled in a Medicare Advantage Plan. Medigap does not cover long-term care costs such as extended in-home or nursing home care.

DID YOU KNOW?

You can find more information about plans in your area at Medicare.gov and through your State Health Insurance Assistance Program (SHIP). Your local SHIP can answer your questions about Medicare and help you obtain coverage.

2019 MEDICARE COSTS AT A GLANCE

PART A premium	Most people don't pay a monthly premium for Part A (sometimes called "premium-free Part A"). If you paid Medicare taxes for less than 30 quarters, the standard Part A premium is $437. If you paid Medicare taxes for 30–39 quarters, the standard Part A premium is $240.
PART A hospital inpatient deductible and coinsurance	You pay: ▪ $1,364 deductible for each benefit period ▪ Days 1–60: $0 coinsurance for each benefit period ▪ Days 61–90: $341 coinsurance per day of each benefit period ▪ Days 91 and beyond: $682 coinsurance per each "lifetime reserve day" after day 90 for each benefit period (up to 60 days over your lifetime) ▪ Beyond lifetime reserve days: all costs
PART B premium	The standard Part B premium amount is $135.50 (or higher, depending on your income).
PART B deductible and coinsurance	$185 per year. After your deductible is met, you typically pay 20% of the Medicare-approved amount for most doctor services (including most doctor services while you're a hospital inpatient), outpatient therapy, and durable medical equipment.higher, depending on your income).
PART C premium	The Part C monthly premium varies by plan.
PART D premium	The Part D monthly premium varies by plan (higher-income consumers may pay more).

Source: Medicare.gov: Costs-At-A-Glance

While most people don't pay Medicare Part A premiums, Part A is not free. Beneficiaries are responsible for paying costs related to the annual deductible and coinsurance, as applicable. Most beneficiaries pay monthly premiums for Parts B, C, and D, which vary by plan and, at times, by income level. In addition, Medicare premiums and deductibles are also subject to annual cost increases. These costs can add up quickly, so it's important to budget for your Medicare expenses in retirement.

WHAT MEDICARE DOES AND DOESN'T COVER

Understanding what Medicare does and does not cover is another important factor in estimating your lifetime healthcare costs. The Kaiser Family Foundation reported that Medicare beneficiaries spent $5,806, on average, on out-of-pocket healthcare expenses in 2016 (the most recent year this data is available). These costs include healthcare premiums and other costs not reimbursed by Medicare.[6] That's because traditional Medicare does not cover:

- Prescription drugs*
- Dental care, including routine exams, X-rays, fillings, and dentures**
- Routine eye exams, glasses, and contact lenses***
- Medical costs incurred outside the United States
- Long-term care, including assisted living, home health aides, and nursing home costs

* Prescription drug coverage is available under Medicare Part D prescription drug plans and certain Medicare Advantage or Medigap plans.

** Some Medicare Advantage plans cover basic cleanings and X-rays, but they generally have an annual coverage cap.

*** Exceptions for vision care include an annual eye exam if you have diabetes or eyeglasses after having certain kinds of cataract surgery. Some Medicare Advantage plans also provide vision coverage.

MEDICARE ELIGIBILITY, ENROLLMENT, AND LATE PENALTIES

As long as you're a U.S. citizen and do not qualify for Social Security disability benefits before age 65, you're eligible to begin receiving Medicare benefits when you turn 65, whether you're still working or not. However, understanding your enrollment window is key if you want to begin receiving Medicare benefits immediately upon turning 65 and avoid late enrollment penalties.

If you're receiving Social Security retirement benefits prior to your 65th birthday, you'll automatically be enrolled in Medicare Parts A and B. Otherwise, when you turn 65, you'll need to take steps to enroll during your 7-month initial enrollment period, which:

- Begins 3 months before the month in which you turn 65
- Includes the month in which you turn 65
- Ends 3 months after the month in which you turn 65

Avoiding late enrollment penalties

In most cases, if you don't sign up for Medicare Part B coverage when you're first eligible, you'll also have to pay a late enrollment penalty equal to 10% of your Part B monthly premium for each 12-month period that you were eligible for Part B, but did not enroll. So if you delay for 24 months, your penalty doubles to 20%; if you delay enrollment for 36 months, you will pay 30% more and so on, for each 12 months you delay. It's important to understand that this is not a one-time penalty; you'll have to pay this penalty for as long as you have Part B coverage. However, there is an important exception to this. If you or your spouse work for a company with 20 or more employees and you're covered under that employer's group health plan, you don't have to enroll in Medicare at age 65. You can wait until you stop working or otherwise lose that insurance and you won't be charged a late enrollment penalty.

Source: Social Security Administration: Publication No. 05-10043, https://www.ssa.gov/pubs/EN-05-10043.pdf

LONG-TERM CARE PLANNING

Among the expenses that traditional Medicare does not cover, long-term care may be the most costly. Long-term care services and support include assisted living, home health aides, adult daycare, and nursing home costs, among others. While these costs are not covered by traditional Medicare, Medicaid will cover some services for low-income people who qualify.[7]

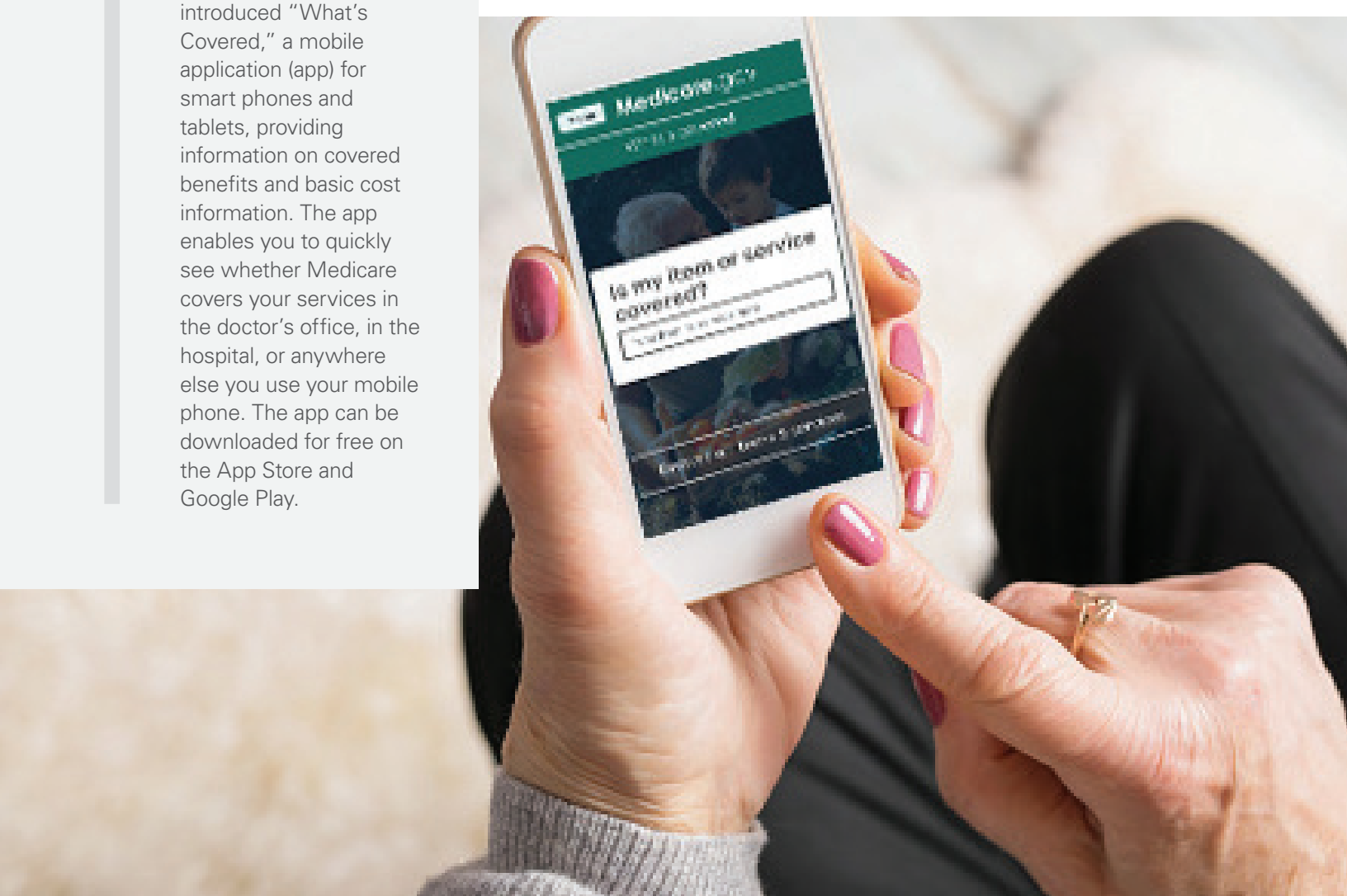
What is the likelihood you may need long-term care?

As life expectancies continue to rise, retiree savings will need to last for a longer period of time. In addition, the longer people live, the more likely they will require long-term care. In fact, according to research conducted by the U.S. Department of Health and Human Services (HHS), half of Americans turning 65 today will develop a disability serious enough to require long-term services and support. Although most will need assistance for less than two years, about one in seven adults will have a disability for more than five years.[8]

The Department of Health and Human Services estimates that adults requiring care will incur $138,000 in future long-term care costs, on average, and that families will be responsible for paying about half of those costs out of pocket, with the rest covered by public programs and private insurance. While most people with long-term care needs will spend relatively little on their care, about one in six will spend at least $100,000 out of pocket for future long-term care costs.[9]

WHAT'S APP, DOC?

In 2019, Medicare introduced "What's Covered," a mobile application (app) for smart phones and tablets, providing information on covered benefits and basic cost information. The app enables you to quickly see whether Medicare covers your services in the doctor's office, in the hospital, or anywhere else you use your mobile phone. The app can be downloaded for free on the App Store and Google Play.



ANNUAL NATIONAL MEDIAN LONG-TERM CARE COSTS

Adult Day Health Care	$18,720
Assisted Living Facility	$48,000
Homemaker Services	$48,048
Home Health Aide	$50,336
Semiprivate Room in a Nursing Home	$89,297
Private Room in a Nursing Home	$100,375

Source: 2018 Genworth Cost of Care Survey

The 2018 Genworth Cost of Care Survey illustrates how quickly these expenses can add up, with the average annual cost for assisted living at $48,000 and private nursing home care topping $100,000 a year. It's also important to note that these are average costs; actual costs can vary widely from state to state.[10]

Should you consider long-term care insurance?

In certain cases, long-term care insurance products may help protect against the high costs of these services in the years ahead. Long-term care insurance is designed to provide coverage if you become chronically ill, and may be an option for qualifying individuals and couples seeking to transfer a portion of the financial risk associated with long-term care costs. Depending on the policy, its provisions, and the options you select, long-term care insurance products may cover a percentage of services such as home healthcare, assisted living, and custodial nursing care, including help with eating, bathing, and dressing. Certain policies may also cover care for degenerative conditions and cognitive disorders, such as Parkinson's disease and Alzheimer's.

However, long-term care insurance is not a solution for everyone. Policies can differ greatly from one provider to the next, so it's important to read all policy provisions carefully—prior to purchase—to learn about any exclusions, limitations, and waiting periods before coverage takes effect. It's also important to compare benefits and providers before deciding whether long-term care insurance is right for you.

The best time to investigate long-term care insurance options is when you're still in relatively good health and less likely to be turned down for coverage. That's because your age, current health, preexisting medical conditions, and family medical history all play a role in determining annual coverage premiums.

PREPARING FOR RETIREMENT: EIGHT TIPS FOR MANAGING HEALTHCARE COSTS

It's never too early to begin saving and planning for how you will pay for healthcare expenses in retirement. However, as you get closer to retirement, it's essential to have a plan in place that provides the confidence that you're on track and will have the income you need to pay for healthcare and other expenses in retirement. The following tips can help you get started:

1. **Make healthcare costs a budget priority.** List your estimated healthcare costs in your retirement budget or spending plan under the "essential expenses" category. This category includes other expenses of daily living, such as food, clothing, housing, and transportation.
2. **Keep in mind that healthcare expenses in retirement are generally incurred over time, not in one lump sum.** An investment strategy designed to produce growth above the rate of inflation may help you generate additional income over time to help offset future healthcare expenses. No strategy assures success or protects against loss.
3. **Planning to retire early?** Be sure to research your healthcare insurance options if you plan to retire before you're eligible for Medicare, at age 65. You'll need to price out coverage options, such as staying on an employer's plan under COBRA or buying a marketplace plan.
4. **Retiring at 65 or later?** Don't miss your enrollment window for Medicare Part B. Enrolling late could subject you to higher Part B premiums for the remainder of your life.
5. **Weigh the benefits of a Medicare Advantage Plan or Medigap coverage for any extra coverage you need.** Remember, traditional Medicare Parts A and B impose no limits on your out-of-pocket expenses, and those costs can add up fast if you experience an illness or injury.
6. **If you participate in a high-deductible health insurance plan during your working years, you may be eligible for a health savings account (HSA).** HSA account contributions typically grow tax-free and can be withdrawn without incurring taxes when used toward qualified medical expenses. Unlike employer-based flexible spending accounts (FSAs), HSA balances are portable and can be rolled over from one year to the next.

   This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.
7. **Consider whether insurance products designed to protect against the high costs of long-term care may be right for you.** Remember, age and health help determine premium costs, so the sooner you explore this avenue, the less expensive it may be to put a strategy in place.

   This material contains only general descriptions and is not a solicitation to sell any insurance product. For information about specific insurance needs or situations, contact your insurance agent.
8. **There's no time like the present.** Taking steps now to improve your health may help you feel better longer and reduce near-term medical costs. Money you don't have to withdraw from your investment accounts now to pay for healthcare expenses has the ability to grow to pay for any expenses down the road.

QUESTIONS TO ASK AT EVERY STAGE OF THE RETIREMENT PLANNING PROCESS

Saving and investing for retirement

- How much do I need to save annually?
- How do I determine the right investment strategy for my circumstances and goals?
- Am I eligible to invest more through an IRA?
- I'm self-employed. What are my retirement plan options?

Nearing retirement

- Are my retirement assets properly allocated?*
- Should I consider converting my traditional IRA to a Roth IRA?
- Do I need long-term care insurance?
- When can I afford to retire?
- Can I retire earlier than planned?

Living in retirement

- Are my retirement assets properly allocated?*
- Will my income last the full duration of my retirement?
- How can I guarantee income will be there when I need it?
- How will required minimum distributions (RMDs) affect my income and taxes in retirement?

* Asset allocation does not ensure a profit or protect against a loss.

HOW WE CAN HELP

A comprehensive approach to planning is essential for evaluating how key retirement risk factors, such as longevity, rising healthcare costs, or the need for long-term care, may impact your ability to pursue the lifestyle you desire throughout retirement. That's because planning establishes a framework for pursuing all of your goals, including how you will pay for healthcare costs and other expenses. It can also help you understand how the financial decisions you make now may support or detract from your ability to accomplish your long-term goals, while offering the flexibility to accommodate changes at every stage of your life. Think of your plan as a road map for dealing with uncertainty, managing change, and helping you overcome obstacles along the path to your goals.

Partnering with an experienced, independent financial advisor who places your best interests first can help you not only work toward your goals, but make confident decisions about your wealth and your future by:

- Developing a written financial and retirement plan based on your goals and objectives
- Providing experienced guidance, insight, and advice
- Recommending opportunities to optimize your strategy and asset allocation
- Monitoring your progress against goals
- Helping you adjust your strategy over time

QUESTIONS?

If you have questions about managing healthcare costs in retirement, contact us to schedule time to talk about your retirement planning needs.

Contact info here
000-000-0000
email@email.com
website.com

1. U.S. Bureau of Labor Statistics, Consumer Expenditure Survey, https://www.bls.gov/opub/btn/volume-5/spending-patterns-of-older-americans.htm

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3. U.S. Department of Labor Blog, By the Numbers: Spending Habits of Older Americans, https://blog.dol.gov/2017/05/30/by-the-numbers-spending-habits-of-older-americans

4. CMS.gov: 2018-2027 Projections of National Health Expenditures, https://www.cms.gov/newsroom/press-releases/cms-office-actuary-releases-2018-2027-projections-national-health-expenditures

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6. Henry J. Kaiser Family Foundation: An Overview of Medicare, https://www.kff.org/medicare/issue-brief/an-overview-of-medicare/

7. LongTermCare.gov, Medicaid Long-term Care Services, https://longtermcare.acl.gov/medicare-medicaid-more/medicaid/medicaid-long-term-care-services.html

8. U.S. Department of Health and Human Services, ASPE Issue Brief, Long-Term Services and Supports Older Americans Risks and Financing, February 2016, https://aspe.hhs.gov/basic-report/long-term-services-and-supports-older-americans-risks-and-financing-research-brief

9. U.S. Department of Health and Human Services, ASPE Issue Brief, Long-Term Services and Supports Older Americans Risks and Financing, February 2016, https://aspe.hhs.gov/basic-report/long-term-services-and-supports-older-americans-risks-and-financing-research-brief

10. 2018 Genworth Cost of Care Survey, https://www.genworth.com/aging-and-you/finances/cost-of-care.html

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

Asset allocation does not ensure a profit or protect against a loss.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual.

This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

All information is believed to be from reliable sources, however we make no representation as to its completeness or accuracy.

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