

Planning for Health Care in Retirement

A guide to covering your medical expenses

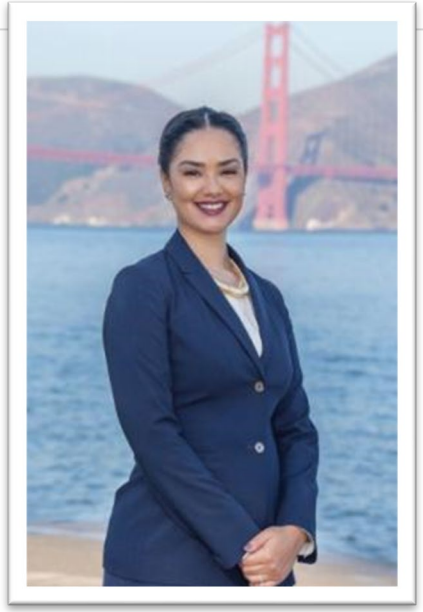
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Agenda

- **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**

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

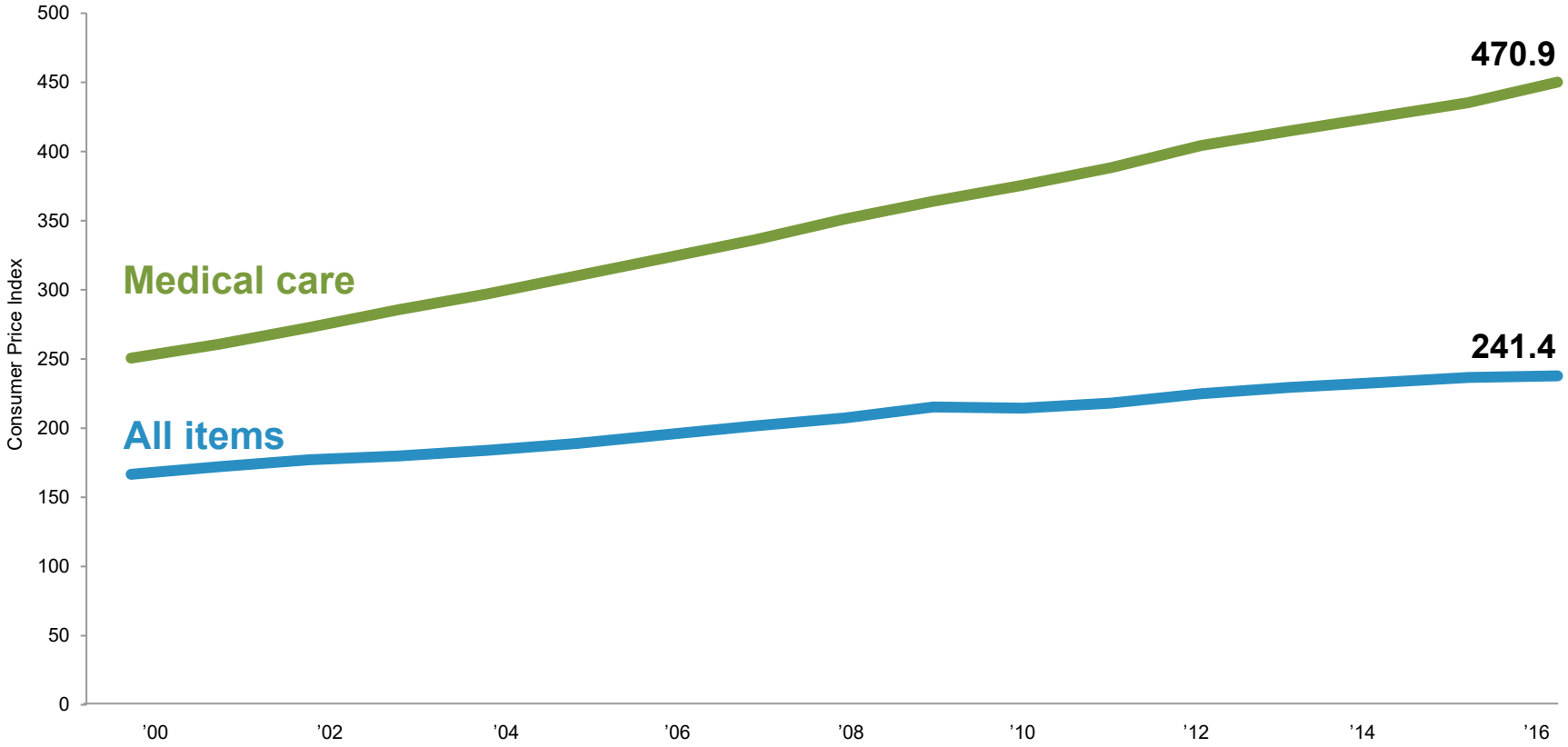


About Your Speaker, Rebecca Tapia

- Financial Advisor
- Education and Communication Specialist
- Working with Heffernan for 20 years
- Provides individual financial education and advisement services
- Wealth Advisor to retirees and pre-retirees
- Series 7 held with LPL Financial. Series 66 held with both LPL Financial and Global Retirement Partners.
- Life, Health & LTC Insurance licensee
- Cert. of Comp. for the CFP Program from UC Berkeley
- Currently pursuing CFP designation

Rising Health Care Costs—A Reality of Retirement

Health care costs have nearly doubled since 2000



Source: Department of Labor, Bureau of Labor Statistics, Consumer Price Index, as of 12/31/16.

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.

The Reality of Retirement Spending

Individuals spend more than 50% of their retirement income on essential expenses[1]

Food	Health Care	Housing
		
Grocery prices have risen **2–3%** every year since 1990.[2]	Out-of-pocket medical expenses have increased **30%** for seniors since 2000.[3]	Nearly **40%** of retirement income goes to housing.[4]

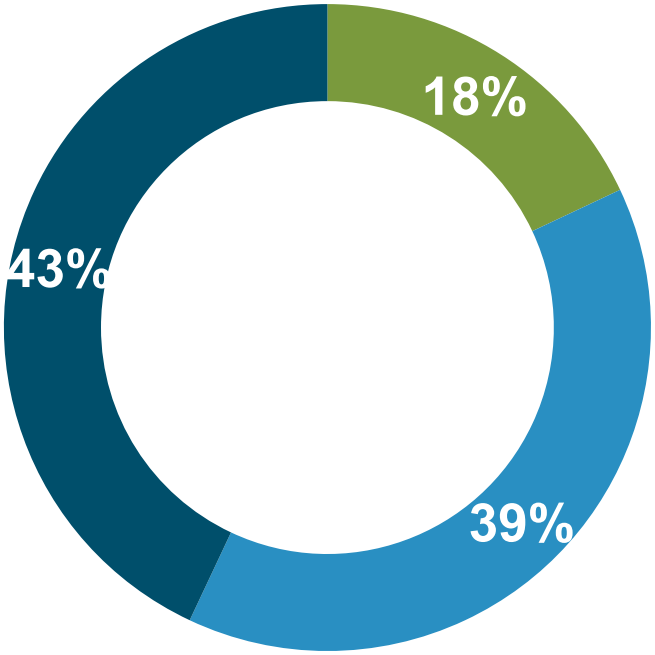
[1] Source: Fidelity Advisor 2015 Survey of Investors at Retirement, November 2015. Conducted by Research Now on behalf of Fidelity Investments, this survey included 2,021 investors between the ages of 50 and 75 with investable assets of $100,000 or more. Fidelity Investments was not identified as the survey's sponsor.

[2] Source: "Food Prices Rise for 4 Reasons," About.com, November 23, 2015.

[3] Source: Senior Citizens League. Seniors' Cost of Living (2000–2015).

[4] "Housing is biggest expense for retirees," Marketwatch, September 30, 2014.

Where Does Retiree Health Care Money Go?



Source: 2023 Fidelity Retiree Health Care Cost Estimate.

$315,000

Out-of-pocket health care expense estimate for a 65-year-old couple

- **Medicare Part B and Part D premiums**
  Doctor appointments and hospital visits
- **Generics, branded drugs, specialty drugs**
- **Other medical expenses**
  Including co-payments, coinsurance, and deductibles for doctor and hospital visits

People may underestimate these costs by more than **50%**[2]

Your Out-of-Pocket Costs May Vary

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Individual Costs Depend On:

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.

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STEP 1

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

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–March 31** to drop existing plan and switch to regular Medicare if plan is non-renewing
- Calendar-year enrollment
- Limited ability to make changes

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Medicare Part A: Hospital Insurance

In-hospital stay in 2023 (per benefit period)	
Days 1–60	$1,600 deductible
Days 61–90	$400 per-day co-payment
Days 91–150	$800 per “lifetime reserve day”
Days 150+	All costs

Source: Medicare.gov.
Benefit period is a period that begins on the day you are admitted to the hospital and ends when you have been out of the hospital for 60 consecutive days.

Medicare Part B: Medical Insurance

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IN 2023, INDIVIDUALS CAN EXPECT TO PAY:

$226 deductible | **20%** coinsurance for doctors' services and outpatient care

2021 Individual Filer AGI	2021 Joint Filer AGI	Standard Monthly 2023 Premium[1]
$97,000 or less	$194,000 or less	$164.90
above $97,000 up to $123,000	above $194,000 up to $246,000	$230.80
above $123,000 up to $153,000	above $246,000 up to $306,000	$329.70
above $153,000 up to $183,000	above $306,000 up to $366,000	$428.60
above $183000 and less than $500,000	above $366,000 and less than $750,000	$527.50
$500,000 or above	$750,000 and above	$560.50

[1] Medicare Part B premiums are calculated based on the recipient's Adjusted Gross Income from two years prior.
Source: Medicare.gov.

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Medicare Part D: Prescription Drug Coverage

Higher-income beneficiaries pay higher Medicare part B and part D premiums[1]

2023 Premiums by Income

Higher-Income Beneficiaries Pay Higher Medicare Part B And Part D Premiums
If your filing status and yearly income in 2021 was:

Individual Filer AGI	Joint Filer AGI	Standard Monthly Premium[1]
$97,000 or less	$194,000 or less	Average plan premium = $31.50
above $97,000 up to $123,000	above $194,000 up to $246,000	Plan premium + $12.20
above $123,000 up to $153,000	above $246,000 up to $306,000	Plan premium + $31.50
above $153,000 up to $183,000	above $306,000 up to $366,000	Plan premium + $50.70
above $183,000 and less than $500,000	above $366,000 and less than $750,000	Plan premium + $70.00
$500,000 or above	$750,000 or above	Plan premium + $76.40

Less than 5% of individuals with Medicare have a higher income and pay a higher premium.[3]

[1] Medicare Part D premiums are calculated based on the recipient's adjusted gross income (AGI) from two years prior.
[2] Source: Medicare.gov.
[3] Source: Medicare.gov, 2023.

STEP 1

Medicare Part D:

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Medicare donut hole 2023

Deductible

Some plans have a deductible, others do not.

Max deductible is **$505**.

Initial coverage



You pay the plan's copays and coinsurances.

Ends once you and the insurance company have spent **$4,660**.

Coverage gap



You pay **25%** of drugs.

Catastrophic coverage



Begins when your spending + manufacturer discounts reach **$7,400**.

You pay **5%** of drug costs or **$4.15** for generics and **$10.35** for brand names — whichever is greater.

Amount resets

On January 1st, your plan resets.

Medigap (Medicare Supplement) vs. Medicare Advantage

ORIGINAL MEDICARE: PARTS A & B



Part A
Hospital Coverage



Part B
Outpatient



Medicare Supplement
(Medigap)



Part D
Prescription Drug Coverage

MEDICARE ADVANTAGE: PART C



Part A
Hospital Coverage



Part B
Outpatient

Combines Parts A & B
Available with or without prescription drug coverage

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Medigap: Supplemental Medicare Insurance

Ten standard plans offering different levels of coverage

Premium cost varies by insurance company and state	No coverage for dental, hearing, or vision
Flexibility to see any doctor who accepts Medicare	No prescription drug coverage

Medigap Benefits	Medigap Plans									
	A	B	C*	D	F*	G*	K	L	M	N
Part A coinsurance and hospital costs up to an additional 365 days after Medicare benefits are used up	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Part B coinsurance or copayment	Yes	Yes	Yes	Yes	Yes	Yes	50%	75%	Yes	Yes
Blood (first 3 pints)	Yes	Yes	Yes	Yes	Yes	Yes	50%	75%	Yes	Yes
Part A hospice care coinsurance or copayment	Yes	Yes	Yes	Yes	Yes	Yes	50%	75%	Yes	Yes
Skilled nursing facility care coinsurance	No	No	Yes	Yes	Yes	Yes	50%	75%	Yes	Yes
Part A deductible	No	Yes	Yes	Yes	Yes	Yes	50%	75%	50%	Yes
Part B deductible	No	No	Yes	No	Yes	No	No	No	No	No
Part B excess charge	No	No	No	No	Yes	Yes	No	No	No	No
Foreign travel exchange (up to plan limits)	No	No	80%	80%	80%	80%	No	No	80%	80%
Out-of-pocket limit	N/A	N/A	N/A	N/A	N/A	N/A	$6,940	$3,470	N/A	N/A

* Plans F and G also offer a high-deductible plan in some states. With this option, you must pay for Medicare-covered costs (coinsurance, copayments, and deductibles) up to the deductible amount of $2,700 in 2023 before your policy pays anything. Plans C and F aren't available to people who were newly eligible for Medicare on or after January 1, 2020.

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Medicare Part C – Medicare Advantage

MEDICARE ADVANTAGE PLANS

HMOs, PPOs, private fee-for-service plans, Medicare specialty plans	Costs may increase if you use **out-of-network doctors**
Address Part A and Part B expenses, and often others, such as prescription drugs	**Hearing, dental, and vision** (not covered under Medicare) may be covered

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Which One Is Right for You?

Medigap
Original Medicare + Medigap Supplement

- May have higher premiums, but typically lower or no copays
- Freedom to choose doctors
- No referrals necessary
- Some routine services are not covered, such as vision and hearing
- Covered anywhere in the U.S.

Medicare Advantage
Medicare Advantage Plan

- Generally lower premiums, but has copays
- Usually includes prescription drug benefits
- May be restricted to network
- May need referrals for specialists
- May include extra benefits, such as vision, hearing, or fitness
- Emergency services only outside service area

It's not always easy to choose.

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?**

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Create a Health Care Coverage Plan

Hypothetical example of Medicare costs for 65-year-old couple with income <$182,000 2022 Example

Medicare Part A	$0 Deductible and co-payments covered by Medigap Plan G
Medicare Part B	$2,274.50 for premium Coinsurance covered by Medigap Plan G
Medicare Part D	$2,486.40 for premium[1]
Medigap Plan G	$1,786 for premium[2]
Annual total	$6,546.60 per person or $13,093.20 per couple

[1] Actual premiums paid by Part D enrollees vary considerably. For 2022, PDP monthly premiums may range from $5.50 to $207.20 (unweighted by plan enrollment). Part D enrollees with higher incomes pay an income-related premium surcharge. Source: An Overview of the Medicare Part D Prescription Drug Benefit, KFF.org.

[2] Average 2018 annual premium, Kiplinger "Two Medigap Plans to Be Phased Out."

https://www.medicare.gov/basics/get-started-with-medicare/medicare-basics/what-does-medicare-cost

STEP 3

Take Stock of Your Funding Sources

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

Reliable income sources
e.g., pension plan, Social Security, annuities

Cover → **Essential expenses**
Food, clothing, shelter, health care

Other income sources
e.g., mutual funds, stocks/bonds, CDs, IRAs, 401ks

Cover gaps first

Then fund → **Discretionary expenses**
Travel, entertainment, memberships

For illustrative purposes only.

Resources to Help Get You Started

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- Medicare.gov
- Eldercare.gov
- AARP.org
- State Health Insurance Programs (SHIPtalk.org)
- Benefitscheckup.org
- SocialSecurity.gov

STEP 4

Planning for Health Care Expenses



Pay attention to your health

Save, Save, Save

Plan on longevity

Maximize your Social Security

Review your spending

STEP 4

Health Savings Accounts

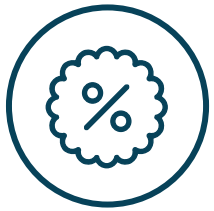
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Individual
savings account



Set money
aside for health care



Tax free*

*With respect to federal taxation only. Contributions, investment earnings, and distributions may or may not be subject to state taxation. See your tax professional for more information about the state tax implications of an HSA.

STEP 4

Four Ways to Use HSA in Retirement



Bridge to Medicare



Cover Medicare premiums



Long-term care expenses



Pay everyday expenses

- No contributions to HSA after enrollment in Medicare
- Once Social Security starts, Medicare (Part A) enrollment is automatic and HSA contributions must stop
- If not receiving Social Security, can defer Medicare to keep HSA
  - Compare HSA/High Deductible Health Plan to Medicare (benefits and costs)

Source: Medicare.gov, SSA.gov.

Create a Health Care Plan with Your Financial Representative

Your representative can help you:
Check health care expense estimates
Categorize essential and discretionary expenses
Review sources of income
Create a plan to ensure that health care and other essential expenses are covered
Develop a financial strategy for discretionary spending

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The 2020 Fidelity Investments Health Care Engagement Framework Research was an online survey of 5,014 employees. The survey was conducted by Greenwald and Associates, an independent third-party research firm on behalf of Fidelity from February 20–March 5, 2020.

2021 Retiree Health Care Cost estimate based on a hypothetical opposite-gender couple retiring in 2021, 65-years-old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates projected with Mortality Improvements Scale MP-2020 as of 2021. Actual assets needed may be more or less depending on actual health status, area of residence, and longevity. Estimate is net of taxes. The Fidelity Retiree Health Care Cost Estimate assumes individuals do not have employer-provided retiree health care coverage, but do qualify for the federal government's insurance program, Original Medicare. The calculation takes into account cost-sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by Original Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services and long-term care.

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