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Health care in retirement



# Planning for Health Care in Retirement

# Important things to keep in mind

• Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution  
• Not insured by any federal government agency • May lose value

The data presented in this presentation are hypothetical and may not be used to project or predict actual performance. The income benefit base is calculated based on no withdrawals and does not include any fees assessed. Your clients' experience may be different and investment results may be higher or lower, depending on the options chosen, fees and expenses. Does not include any up-market performance. These results are not reflective of any gains in the market and are assuming guaranteed interest amounts provided by the products used as examples in the case studies.

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# Agenda

- The Retirement Income Challenge
- Understanding Health Care
- Creating a Plan to Address Health Care Costs

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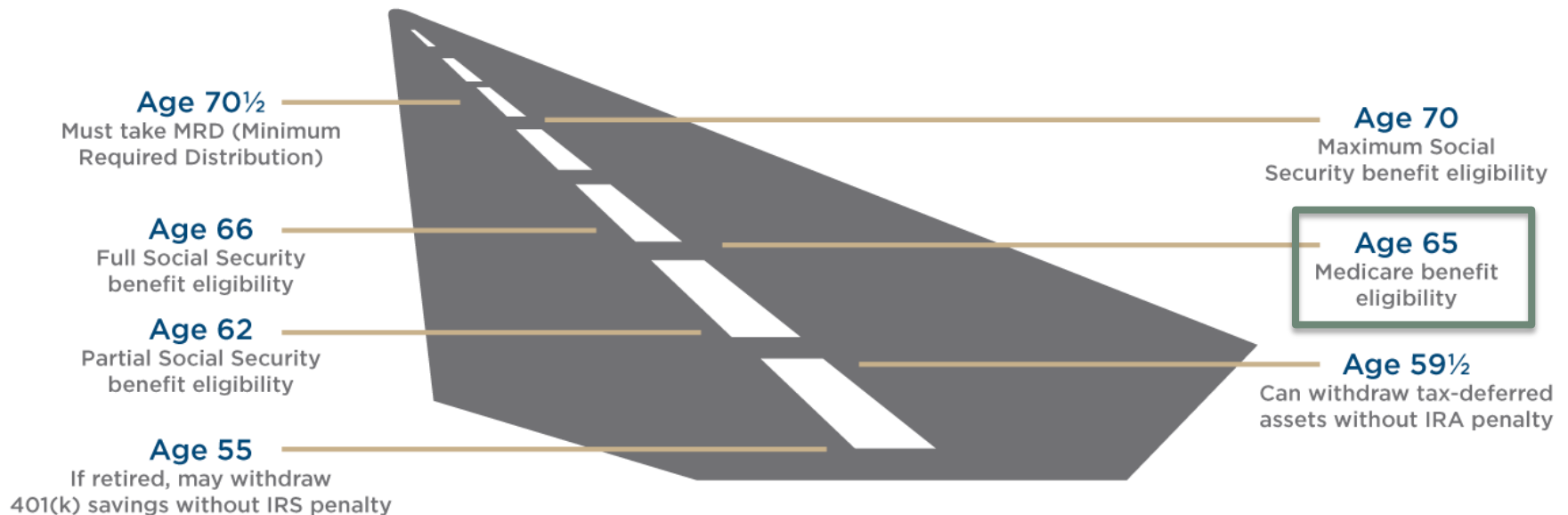
Health care in retirement

# The Retirement Income Challenge

# The Retirement Income Challenge

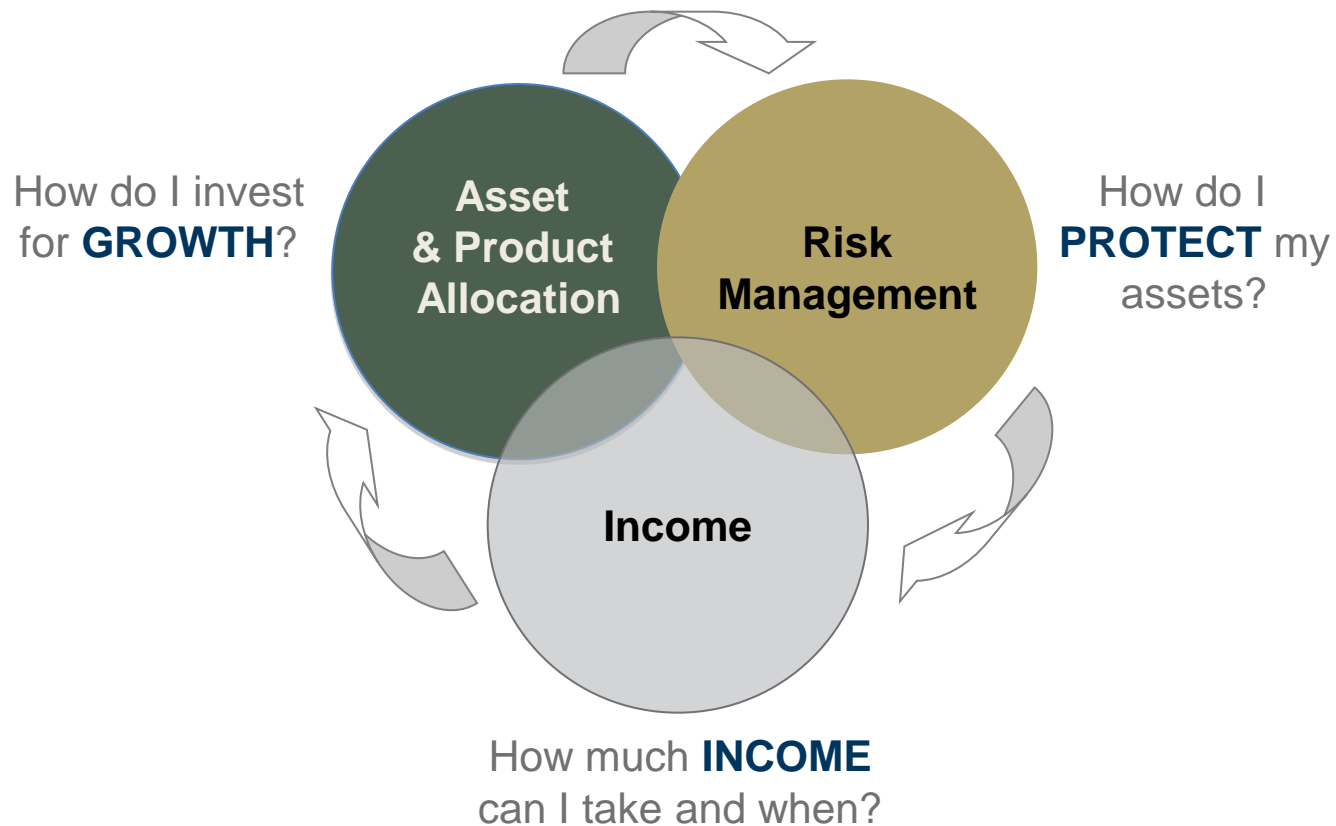
Retirees need to make a series of important decisions between ages 55 and 70½

## Retirement Decision Points



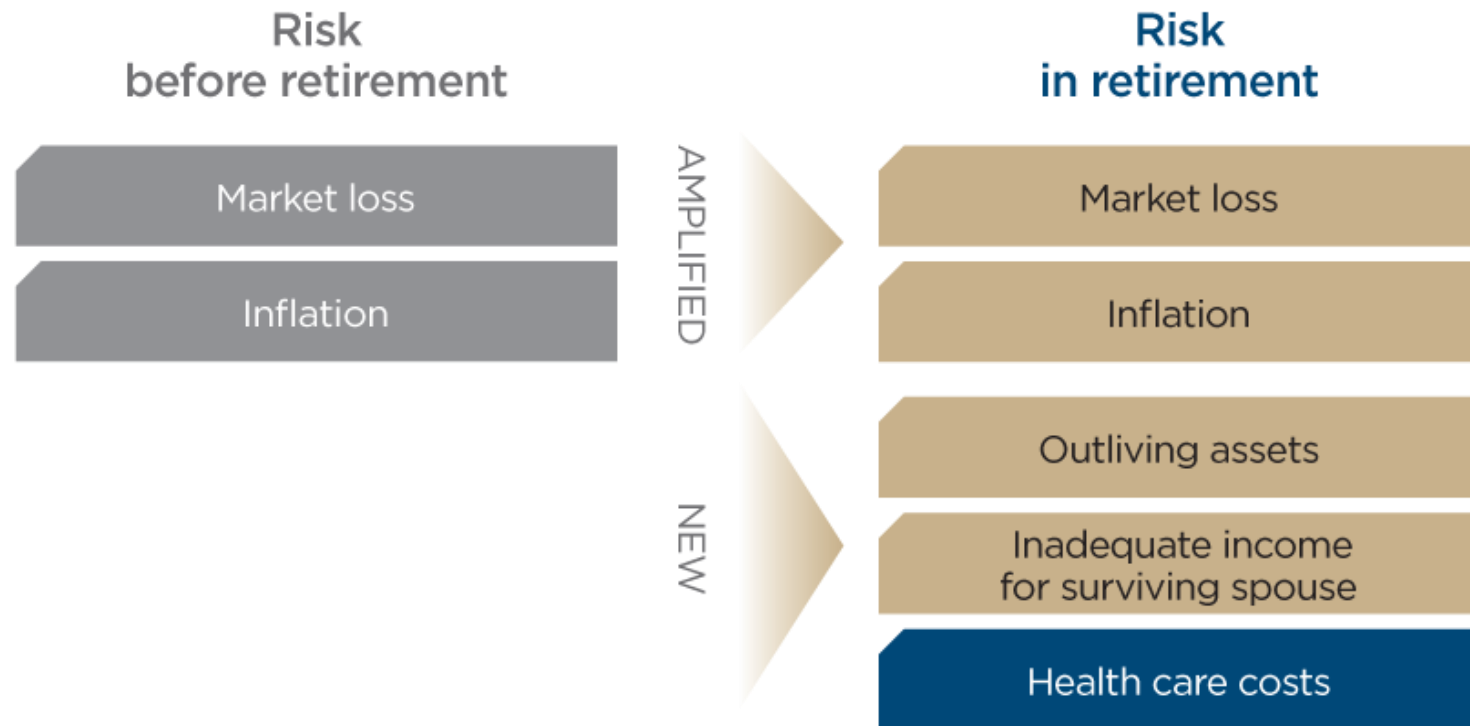
*The Retirement Income Reference Book, 2009, LIMRA*

# The Retirement Income Challenge



*The Retirement Income Reference  
Book, 2009, LIMRA*

# The Retirement Income Challenge



*The Retirement Income Reference  
Book, 2009, LIMRA*

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# The Health Care Dilemma



# The Health Care Dilemma

- Managing the cost of health care is one of the most complex issues facing society
- Likely among your greatest expenses in retirement
- Ranks as a top concern of retirees

*Fidelity Investments Estimates Couples retiring in 2010 Will Need \$250,000 to Pay Medical Expenses In Retirement." Study conducted by Infogroup/ORC from March 4<sup>th</sup> – 14<sup>th</sup> 2010 and includes 376 respondents.*  
*Fronstin, Paul. "Savings Needed to Fund Health Insurance and Health Care Expenses in Retirement: Findings from a Simulation Model | EBRI." Employee Benefit Research Institute | EBRI. May 2008.*



# The Health Care Dilemma

Health care costs  
have far outpaced  
inflation over last  
decade

- **8.3%** – Health care
- **2.6%** – Inflation

...and they can have a  
significant impact on your  
finances

- **33%** Have difficulty paying bills
- **27%** Use up savings
- **14%** Borrow money

*US Bureau of Labor Statistics 2011*

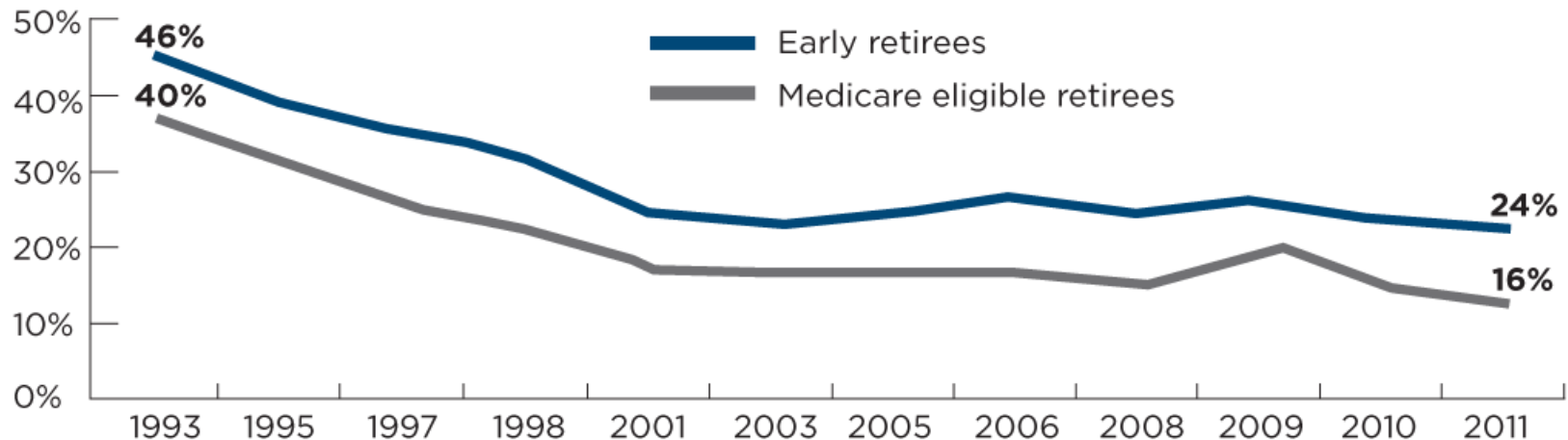
*Helman, Ruth, Matthew Greenwald, and Associates. "2006 – 2011 Health Confidence Survey."*

*[www.ebri.org/pdf/EBRI\\_Notes\\_09-2011.pdf](http://www.ebri.org/pdf/EBRI_Notes_09-2011.pdf)*



# The Health Care Dilemma

## Percentage of employers with 500 or more employees offering health insurance to retirees 1993 - 2011



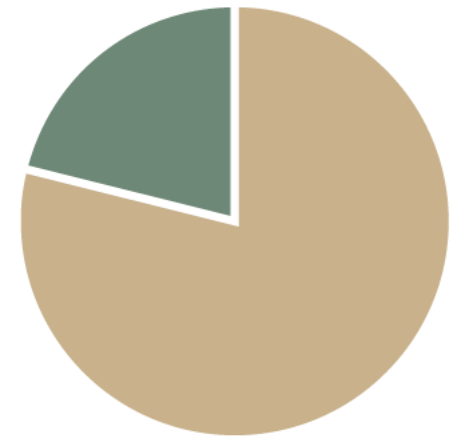
Source: Mercer National Survey of Employer-Sponsored Health Plans, Mercer, 2011

LIMRA® "Yearly Premiums For Family Health Coverage Rise To \$12,680 In 2008, Up 5 Percent As Many Workers Also Face Higher Deductibles - Kaiser Family Foundation." *The Henry J. Kaiser Family Foundation - Health Policy, Media Resources, Public Health Education & South Africa - Kaiser Family Foundation*. 8 Sept. 2008. Web. <http://www.kff.org/newsroom/ehbs092408.cfm>

# The Health Care Dilemma

## Consumer Estimate of Annual Health Care Costs in Retirement

\$10,000:	8%
\$6,000 to \$9,999:	13%
\$3,000 to \$5,999:	25%
\$1,500 to \$2,999:	12%
\$0 to \$1,499:	16%
Don't Know:	26%



**79% have underestimated, or don't know their medical costs**

*Nationwide Survey "Health Care Costs in Retirement." Consumer study of 625 respondents, January 2012.*

# But what about Medicare?

## Myth

Medicare will cover most/all of my expenses

Medicare will cover my long-term care if I need it

## Fact

It covers only about 51%

It does not cover long-term care

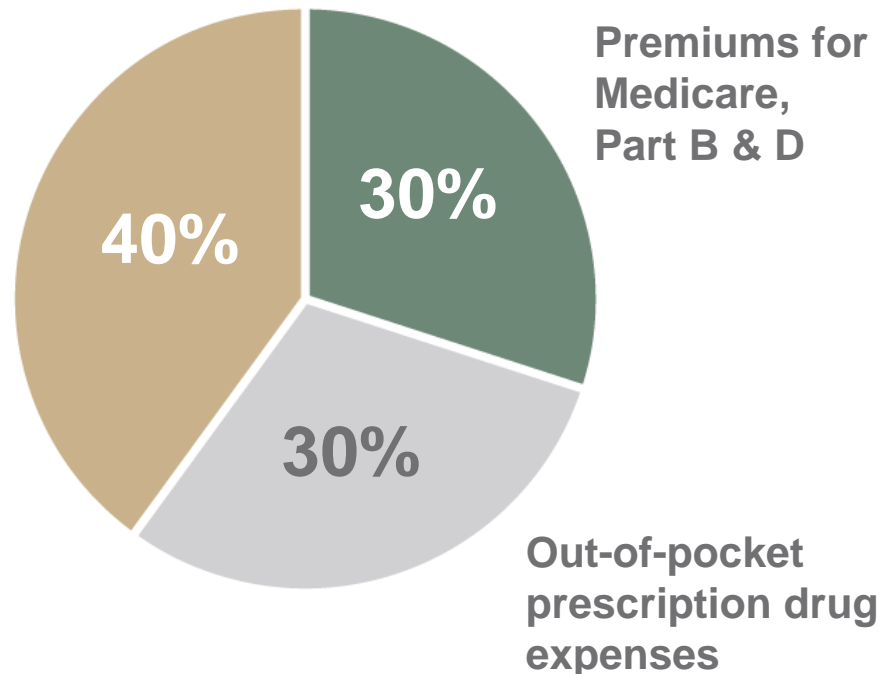
*Fronstin, Paul. "Savings Needed to Fund Health Insurance and Health Care Expenses in Retirement: Findings from a Simulation Model | EBRI." Employee Benefit Research Institute | EBRI. May 2008.*

# Understanding Health Care

## Health care expenses<sup>1</sup>

Medicare  
cost-sharing  
provisions

**\$250,000 – 430,000:**  
Out-of-pocket health care  
expense estimate for  
a 65-year-old couple.<sup>1</sup>



<sup>1</sup> Fidelity Consulting Services, 2010. Based on a hypothetical couple retiring in 2010, 65 years or older with average (82 male, 85 female) and longer (92 male, 94 female) life expectancies. Estimates are calculated for “average” retirees, but may be more or less depending on actual health status, area, and longevity.

# Understanding Medicare

## Option 1

**Original Medicare**  
Part A and Part B

+

**Secondary Insurance**  
GHI, MedSup

+

**Rx Coverage**  
Part D or GHI

**OR**

## Option 2

**Medicare  
Advantage (Part C)**

1. Hospitalization,
2. Medical
3. Rx (MA-PD)

# Understanding Health Care

## Option 1 – Medicare Part A: Hospital Insurance

- Inpatient Hospitalization
- Skilled Nursing Facilities
- Home Health Care
- Hospice

Patient costs for an in-hospital stay	
Days 1-60	\$1,184 deductible
Days 61 - 90	\$296 per day co-pay
Days 91-150	\$592 per day co-pay
Days 150+	All costs

*The Official U.S. government Medicare Handbook, Medicare & You, 2013*



# Understanding Health Care

## Option 1 – Medicare Part B: Medical Insurance

- Doctors/Providers
- Preventive Benefits
- Durable Medical Equipment
- Outpatient services

Individual Pays	
• Monthly premium (based on AGI)	
• \$147 deductible	
• 20% coinsurance on doctors' services and outpatient care	

*The Official U.S. government Medicare Handbook, Medicare & You, 2013*

# Understanding Health Care

## Option 1 – Medicare Part B: Monthly Premiums

If Your Yearly Income in 2011 was:		You Pay
Filed Individual Tax Return	Filed Joint Tax Return	
<b>\$85,000 or less</b>	<b>\$170,000 or less</b>	<b>\$104.90</b>
<b>\$85,000 - \$107,000</b>	<b>\$170,000 - \$214,000</b>	<b>\$146.90</b>
<b>\$107,000 - \$160,000</b>	<b>\$214,000 - \$320,000</b>	<b>\$209.80</b>
<b>\$160,000 - \$214,000</b>	<b>\$320,000 - \$428,000</b>	<b>\$272.70</b>
<b>above \$214,000</b>	<b>above \$428,000</b>	<b>\$335.70</b>

*The Official U.S. government Medicare Handbook, Medicare & You, 2013*



# Understanding Health Care

## Option 1 – Medicare Part D: Prescription Drug Coverage

- Available two ways:
  - Stand Alone Prescription Drug Plans (PDPs)
  - Through Medicare Advantage Plans (MAPDs)
- ALL people with Medicare can get Part D
- Open Enrollment Oct 15<sup>th</sup> - Dec 7<sup>th</sup> 2013:
  - Other enrollment times based on circumstance
  - Coverage begins Jan 1, 2014

# Understanding Health Care

## Option 1 – Medicare Part D: Prescription Drug Coverage (2013)

\*\* Premiums vary by insurer

■ You pay  
■ Medicare pays

**The doughnut  
hole is large  
and expensive**

95% Medicare benefit  
(catastrophic coverage)

Beneficiary pays 5% (min. co-pay)  
\$2.60 generic or \$6.50 brand

\$4,750 out-of-pocket reached  
\$6,657 in total drug costs

100%  
No Medicare coverage  
in donut hole

Beneficiary pays 100% or \$3,764  
• 47.5% of the cost for brand name  
medications  
• 79.0% of the cost of generic  
medications

\$2,970 in total drug costs

75%  
Medicare benefit  
(initial coverage)

Beneficiary pays \$661 (25% or flat  
co-pay amounts based on formulary)

\$325 Deductible

Beneficiary pays 100% or \$325

Medicare.gov

# Understanding Medicare

## Option 1 — Medigap: Medicare supplemental insurance

- Pay only after Original Medicare (Parts A & B)
- Flexibility to see any doctor who accepts Medicare
- Open Enrollment - Six months beginning with Part B effective date at age 65 or older
- Does not cover prescriptions

# Understanding Medicare

## Cost of Medicare Premiums:

	Monthly	Annual
Medicare Part A	\$0	\$0
Medicare Part B	\$104.90 <sup>2</sup>	\$1,258.80
Medicare Part D	\$30.00	\$360 <sup>3</sup>
Medigap Plan C	\$ 178	\$ 2,136 <sup>4</sup>
<b>Total Per Person</b>	<b>\$312.90</b>	<b>\$3,734.80</b>
<b>Per Couple</b>	<b>\$625.80</b>	<b>\$7,509.60</b>

1. *The Official U.S. government Medicare Handbook, Medicare & You, 2013*
2. *Medicare Part D premiums are on average about \$400 per year (varies by State) and are subject to the plan a person selects.*
3. *Medigap Insurance can vary by carrier and state. The average plan in 2011 was \$178 per person per month for an annual cost of about \$2,136.*



# Understanding Medicare

## Option 2 — Medicare Part C: Medicare Advantage Plans

Offered by private companies to replace Original Medicare and secondary insurance

Numerous options by county:

- Managed Care (HMO/PPO)
- Non-Managed Care (PFFS/MSA)

Most plans include Part D benefit (MA-PD)

Uncovered hearing, dental, and vision may be covered

Costs may increase for out-of-network doctors

Available to those:

- Enrolled in Parts A & B
- That live within the plan's service area (county)
- That do NOT have End Stage Renal Disease

Enrollees pay Part B premium and any other applicable costs

# Understanding Medicare

## Applying for Medicare:

- Enrollment automatic if clients get Social Security or Railroad Retirement benefits prior to Medicare eligibility
- All others must apply with Social Security (or Railroad Retirement) during their **seven- month Initial Enrollment Period (IEP)**
  - Three months before 65<sup>th</sup> birthday
  - Month of 65<sup>th</sup> birthday
  - Three months after 65<sup>th</sup> birthday

**The sooner the better!**





# Understanding Medicare

## Leverage these health care planning resources

- **Medicare**
  - [www.Medicare.gov](http://www.Medicare.gov)
  - 1-800-MEDICARE
  - [www.MyMedicare.gov](http://www.MyMedicare.gov)
- **State Health Insurance Programs (SHIP)**
- **Benefitscheckup.org**
- **Eldercare.org**
- **Social Security Administration**
  - [www.SocialSecurity.gov](http://www.SocialSecurity.gov)
  - 1-800-772-1213

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# Creating a plan to address Health Care costs

# Create a plan to cover health care costs

## Americans underestimate retirement health care costs

- The majority of pre-retirees have underestimated the cost of health care in retirement
- Eliminate the guesswork with a personalized health care cost assessment from Nationwide Financial®



# Start with a Health Care Cost Assessment

## Determine individual health care costs

- The Nationwide Financial Health Care Cost Assessment
  - Powered by calculations from one of the world's leading actuarial firms
  - Provides a personalized estimate of possible annual health care expenses
  - Includes estimates for Medicare, out-of-pocket and long-term care expenses

# Creating a plan to address health care costs


## Personalized health care cost assessment

- Health profile
- Longevity
- Total investment needed at retirement
- Impact of not taking action

# Health Care Cost Assessment

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Health care costs in retirement

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## Your Health Care Cost Assessment

A personalized estimate of retirement health care costs to help you plan for the future

*Includes Medicare, out-of-pocket, and long-term care expense estimates*  
Designed for John Q Client and Jane Q Client  
Monday, November 12, 2012

Prepared by Sample Producer  
\*\*\*\*\*  
\*\*\*\*\*  
\*\*\*\*\* XX 99999  
(999) 999-999

The information collected on the Personalized Health Care Cost Assessment will be kept confidential and used to provide an estimate of a client's potential health care costs in retirement. The estimate is based on a client's specific financial situation and goals, as well as their current overall health condition. The client's financial situation and health conditions may change over time and this may affect their future changes. Please keep in mind that the estimates resulting from this fact finder are for hypothetical purposes only and are not guaranteed.

For more information on how Nationwide Financial<sup>®</sup> protects your personal information, visit our online privacy policy at <http://www.nationwide.com/privacy-security.jsp>.

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# Health Care Cost Assessment

## Client Facts

	John Q Client	Jane Q Client
Age/Gender:	Male, Age 60	Female, Age 60
Retirement Age:	65	65
Life Expectancy:	80	90
State:	OH	OH
Income Level:	Married Filing Jointly — \$170,000 or less	
Medicare Coverage:	Medicare premiums plus additional medical costs	
Current Health		
High blood pressure:	No	No
High cholesterol:	No	No
Type 1 diabetes:	No	No
Type 2 diabetes:	No	No
Cardiovascular disease:	No	No
Cancer:	Diagnosed 5 years ago	No
Multiple Sclerosis:	No	No
Lifestyle & health history		
Tobacco user:	No	No
Regular exercise schedule:	Yes	Yes
Healthy diet:	Yes	Yes
Cardiovascular/Diabetes family history:	No	No
Dependency on cane, walker, or wheelchair:	No	No

<sup>1</sup> The 2011 Sourcebook for Long-term Care Insurance Information - AALTCI 2011, U.S. Census Bureau.

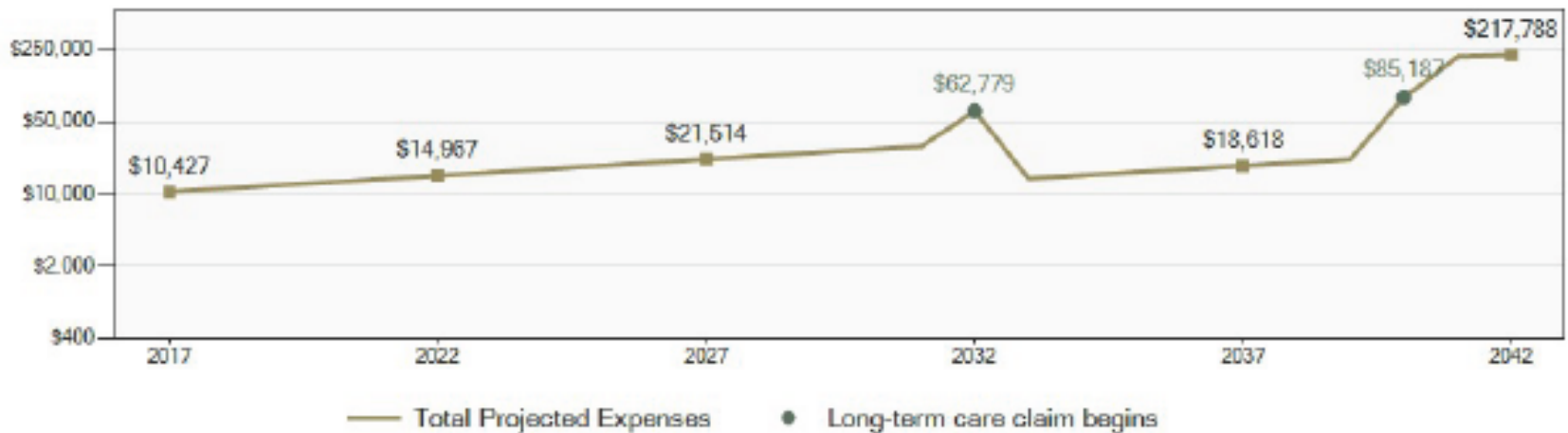
# Health Care Cost Assessment

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Health care costs in retirement  
Personalized Health Care Cost Assessment  
prepared by Sample Producer of \*\*\*\*\*



## Overall

The following graph shows the *total* estimated cost of health care in retirement.



medical costs.

SAMPLE — Medicare & LTC Estimate

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# Health Care Cost Assessment

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Health care costs in retirement

Personalized Health Care Cost Assessment



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Year	John Q Client				Jane Q Client				Total
	Age	Premiums	Additional Costs	Long-term Care	Age	Premiums	Additional Costs	Long-term Care	
2038					86	\$18,892	\$1,080		\$19,972
2039					87	\$20,289	\$1,131		\$21,420
2040					88	\$21,864	\$1,194	\$62,330	\$85,187
2041					89	\$23,069	\$1,249	\$185,862	\$210,180
2042					90	\$24,537	\$1,301	\$191,949	\$217,788
<b>Total</b>		<b>\$124,252</b>	<b>\$48,071</b>	<b>\$32,360</b>		<b>\$305,804</b>	<b>\$19,949</b>	<b>\$440,141</b>	<b>\$970,577</b>
<b>Average</b>		<b>\$7,766</b>	<b>\$3,004</b>			<b>\$11,762</b>	<b>\$767</b>		

Expense for Couple	Expense Type	Annual Average*	Total
	Premiums & Additional Costs	\$19,157	\$498,076
	Long-term Care	—	\$472,501

\* based on life expectancy of longest surviving spouse/partner

2030	78	\$11,176	\$3,962		78	\$10,688	\$747		\$26,572
2031	79	\$12,013	\$4,168		79	\$11,471	\$783		\$28,433
2032	80	\$12,909	\$4,381	\$32,360	80	\$12,310	\$820		\$62,779

Average	\$7,766	\$3,004	\$11,762	\$767	
Expense for Couple	Expense Type	Annual Average*		Total	
	Premiums & Additional Costs	\$19,157		\$498,076	
	Long-term Care	—		\$472,501	

\* based on life expectancy of longest surviving spouse/partner

SAMPLE — Medicare & LTC Estimate

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# Health Care Cost Assessment

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Health care costs in retirement

Personalized Health Care Cost Assessment

generated by Sample Product of ~~XXXXXXXXXXXX~~



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## Jane Q Client

The following shows long-term care summary and cost information for Jane Q Client in OH, metro region Columbus. Projected amounts are expressed as future dollars.

	✓ Nursing Home Care	Assisted Living Facility	Home Health Care
Average Length of Stay	857 days (beginning in 2040)	1108 days (beginning in 2039)	482 days (beginning in 2041)
Annual Cost Today	\$73,000	\$50,076	\$43,998
Projected Inflation Rate <sup>1</sup>	2.7% - 3.8%	-1.1% - 5.6%	-1.4% - 6.9%
Projected Annual Cost at Claim	Range: \$152,881 - \$210,017	\$37,117 - \$219,724	\$29,493 - \$308,334
	Average: \$179,968	\$105,710	\$65,113
Projected Total Cost	Range: \$371,089 - \$517,314	\$110,156 - \$743,586	\$38,516 - \$428,303
	Average: \$440,141	\$338,807	\$86,813

### ✓ Skilled Nursing Facility

Based on your health conditions and historical statistical data, you may want to consider **Skilled Nursing Facility** versus other types of care.

Projected Total Cost      Average:      \$440,141      \$338,807      \$86,813

### ✓ Skilled Nursing Facility

Based on your health conditions and historical statistical data, you may want to consider **Skilled Nursing Facility** versus other types of care.

<sup>1</sup> The inflation rates assumed in this report are based on publicly available cost of care surveys from 2007 to 2011. Actual experience will be different from the average. The actual future inflation rates will be different from historical rates. The assumed inflation rates continue to be reviewed as data becomes available. The lowest and highest observations in the historical data do not represent the minimum or maximum possible future inflation rates. Future inflation may be higher or lower.

SAMPLE — Medicare & LTC Estimate

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# Health Care Cost Assessment

## Client Fact Finder

Assessment Questions (Check Yes or No)	Client's Response	Spouse's/Partner's Response
Current health*		
Diagnosed with high blood pressure?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>Annual Income in Retirement</b> —Select the range that best fits your actual or estimated post-retirement income (not your income level before retirement.) Use your modified adjusted gross income (MAGI) and assume today's dollars. Your retirement income helps determine the cost for Medicare Parts B & D.		
<b>Medicare Coverage</b> —Choose from the following Medicare coverage options. All Medicare premiums plus additional medical costs will be used as the default option if no other option is selected. Not required for LTC-only reports.		
Include Medicare parts A, B, & D plus supplemental insurance premiums and out-of-pocket expenses.		<input type="checkbox"/>
Include Medicare parts A, B & D plus supplemental insurance premiums only.		<input type="checkbox"/>
Include Medicare parts A, B & D only.		<input type="checkbox"/>
<input type="checkbox"/> \$320,001 to \$428,000		<input type="checkbox"/> \$160,001 to \$214,000
<input type="checkbox"/> more than \$428,001		<input type="checkbox"/> more than \$214,001
Exercise for at least 2 hours a week?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
Follow a healthy, well-balanced diet?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
Family history of diabetes or cardiovascular disease?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No

<input type="checkbox"/> \$214,001 to \$320,000	<input type="checkbox"/> more than \$320,001	<input type="checkbox"/> \$107,001 to \$160,000
<input type="checkbox"/> \$320,001 to \$428,000		<input type="checkbox"/> \$160,001 to \$214,000
<input type="checkbox"/> more than \$428,001		<input type="checkbox"/> more than \$214,001
<b>Medicare Coverage</b> —Choose from the following Medicare coverage options. All Medicare premiums plus additional medical costs will be used as the default option if no other option is selected. Not required for LTC-only reports.		
Include Medicare parts A, B, & D plus supplemental insurance premiums and out-of-pocket expenses.	<input type="checkbox"/>	
Include Medicare parts A, B & D plus supplemental insurance premiums only.	<input type="checkbox"/>	
Include Medicare parts A, B & D only.	<input type="checkbox"/>	
<b>NATIONWIDE USE ONLY</b> <input type="checkbox"/> RLC <input type="checkbox"/> TSO <input type="checkbox"/> BGA <input type="checkbox"/> Institute <input type="checkbox"/> Other		

\* Assessment is not designed for persons already diagnosed with Alzheimer's, Parkinson's or other disqualifying conditions.

# Summary

- The Retirement Income Challenge
- Understanding Health Care
- Creating a plan to address health care costs