Medicare

Analysis & Strategy

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Prepared for Bill Retiree
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HEALTHCARE COSTS IN RETIREMENT

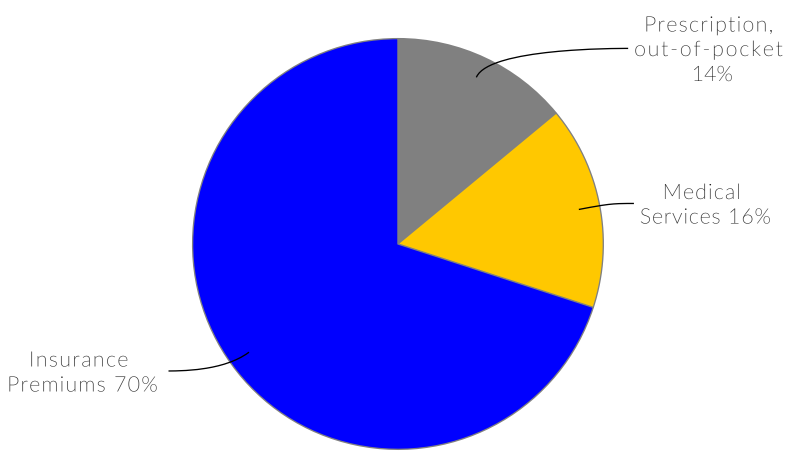
Most retirees are concerned about healthcare costs in retirement. However, many avoid planning for healthcare costs because both media and academic information is overwhelming. Often, though, retirees find that their actual spending on health-related goods and services in retirement differs significantly from projected estimates. So let's begin with the average annual expenditures actually reported by retirees.

The U.S. Bureau of Labor Statistics completes periodic surveys of American consumers related to actual expenditures – including expenditures on health insurance, out-of-pocket healthcare, and other related expenses in retirement.[1] According to 2014 actual spending data, the average consumer over age 65 reports the following expenditures on health-related services:

Insurance premiums (including Medicare Part B and Medicare Part D)	$3,951
Prescription drug out-of-pocket expenditures	$721
Medical services (including dental and vision out-of-pocket expenses and medical supplies not covered by insurance)	$1,181
TOTAL annual expenditures on healthcare	$5,853

[1]U.S. Bureau of Labor Statistics Consumer Expenditure Survey, 2014.

The allocation for health-related expenditures as compared to the total spent is:



As you can see from the chart above, insurance premiums account for the largest percentage of health-related expenditures; however, when compared to the average consumption of health services while in retirement, insurance premiums are essential. According to the Urban Institute in 2014, the average married couple receives lifetime Medicare benefits of about $427,000. The average single male receives about $197,000 in benefits, while the average single female receives about $230,000.

Costs for health-related services are certainly dependent on a number of factors including your health status, family history, age, employer-provided services, geography, and even your marital status. This report assumes that you fall into the average expenditures listed above. If you believe your actual expenditures will be more, you should plan accordingly. In addition, we've assumed that your income in retirement falls below the lowest threshold and you will not be subject to higher Medicare premiums based on income.

YOUR EXPECTED HEALTHCARE COSTS IN RETIREMENT

Based on your life expectancy of 85 for Bill and 90 for Mary, you should plan for the following health-related expenditures in retirement:

Bill: $117,060 (cumulative lifetime total in today's dollars)

Mary: $146,325 (cumulative lifetime total in today's dollars)

To arrive at these amounts, we calculated the number of years between Medicare eligibility at age 65 and your estimated life expectancy, then we multiplied by the annual expenditures reported to the U.S. Bureau of Labor Statistics in 2014. Your actual expenditures may be more or less than this projection.

The amounts above are in current dollars and are not adjusted for inflation. However, according to the Kaiser Family Foundation, healthcare costs over the past 25 years have risen at an average of more than 6% per year. Future costs are expected to rise at about the same rate over the next decade, it's important to work with your financial professional to plan for these expenses.

MEDICARE EXPENSES

Introduction

As you develop and manage plans for your future, medical insurance is a key component of your financial stability. To this end, as you approach age 65 you should become knowledgeable about Medicare coverage and what you need to do to ensure uninterrupted coverage and/or late enrollment premium penalties, regardless of your current medical coverage and work status.

Recommended Medicare Enrollment Dates

Bill and Mary, by enrolling during the enrollment period below – or in your special enrollment period after employer coverage ends – you will avoid gaps in coverage and late enrollment penalties.

Based on the birth date (s) you provided, your Medicare enrollment dates are below.

- Bill should enroll for Medicare coverage between September 2019 and March 2020.
- Mary should enroll for Medicare coverage between September 2022 and March 2023.

Medicare Categories

Like Social Security, Medicare can seem overwhelming. Medicare has 4 categories of coverage: parts A, B, C and D.

Part A is “hospital insurance” and helps pay for inpatient hospital care, skilled nursing facilities, hospice care, and some home health care. Because people usually pay for Part A coverage through a federal Medicare tax while working (1.45% of wages), most don't pay a deductible or monthly premium after age 65. However, if you did not pay Medicare taxes while working, you may still be able to purchase Part A coverage.

Part B is "medical insurance" and helps pay for doctors' visits, outpatient hospital care, physical and occupational therapy and some home health care. Part B coverage requires payment of a monthly premium. Premiums are set annually, and the premium is adjusted based on income thresholds.

Part C combines Part A, Part B, and, sometimes, Part D (prescription drug) coverage. These plans are called Medicare Advantage Plans and are managed by private insurance companies approved by Medicare. Rates for Plan C, and the coverage included, vary by carrier.

Part D provides coverage for prescription drug benefits. Plans vary by cost, number of drugs covered and pharmacies on each plan, but all plans must meet a minimum standard for drug coverage set by Medicare. The average monthly premium is around $40, ranging from $15 to $130 monthly.

"Medigap" policies are available to people who do not purchase a Medicare Advantage Plan. Medigap plans will cover payment for some costs not covered by Parts A, B and D.

Even if you have a plan for each of the parts A, B, C, and D, not all medically-related services will be covered. Most notably, long-term (or custodial) care is not covered. Cosmetic surgery and alternative therapies such as acupuncture are not covered. And most plans do not cover dental or vision care, or hearing devices.

In determining what coverage you will need, you should create a list of services that are important to you or any medical condition you may have. In your evaluation of your options, make certain these services are covered by any plan you are considering. The website www.medicare.gov can provide additional help in comparing plans.

Important Medicare Enrollment Dates:

Understanding Initial and Special enrollment dates, and requirements for each, is important.

If you are planning to enroll in Medicare, the enrollment dates are critical for you in order to avoid delayed coverage which could result in a period of time with no coverage or a late enrollment penalty. When you're first eligible for Medicare, you have a 7-month Initial Enrollment Period to sign up. For example, if you're eligible when you turn 65, you can sign up during the 7-month period that begins 3 months before the month you turn 65, includes the month you turn 65, and ends 3 months after the month you turn 65. If you didn't sign up for Medicare when you were first eligible, you can sign up during the General Enrollment Period between January 1–March 31 each year and your coverage will start July 1.

If you incur a late enrollment penalty, it is permanent, meaning that your premiums will forever bear the added penalty. The penalty is 10% of the effective premium amount for each year you have no coverage. Here is an example:

John was quite healthy when he retired from work at 64, so he chose not to continue his employer coverage after leaving. He knew he would be able to enroll in Medicare at some point when he needed coverage. When John turned 65, he was still very healthy and decided to forego Medicare enrollment. But when John turned 67, he wasn't quite as healthy and decided to enroll in Medicare. To John's surprise, his late enrollment – two full years after his eligibility – carried a 20% penalty, 10% for each year he had no coverage. And the penalty was 20% of the new, increased premium each year.

Important Note for Those Still Working, Collecting Employer Long Term Disability or Covered Under COBRA: Bill and Mary , if you are still working and will be covered by an employer-sponsored healthcare plan with a company of 20 or more employees when you reach age 65 and won't need Medicare right away, the recommend enrollment dates might not apply to you. However, should your employer coverage end (including employees on Long Term Disability or covered under COBRA), you will be subject to a special enrollment period of eight months that begins when you leave work or when your coverage ends, whichever occurs first. The following caveats should be kept in mind:

- COBRA is not considered as coverage for the purpose of calculating when healthcare coverage ended.
- Some employer retiree medical insurance plans require you to sign up for Medicare when you are initially eligible, and Medicare then becomes the primary payer in coordination of benefits. You should speak to a benefits representative with your employer to determine if you might be required to enroll in Medicare for coordination of benefits.
- Under some group retiree plans, if you select a Part D offering, you could forfeit some or all of your retiree medical coverage for you and all your dependents. Be sure to know your specific plan benefits and rules.

Medicare Part B Premiums:

The amount of your Medicare premium is determined each year using a benefit formula from the 1997 Balanced Budget Act which set the premium at 25% of the total program costs. In other words, the Part B premiums are calculated by dividing 25% of the actual cost of care and administration of the plan by the number of projected participants in the program. The remaining 75% of program costs are financed through general revenues.

Those with a modified adjusted gross income over $85,000 if you are single and $170,000 if you are married are assessed on income-related threshold adjustment and pay a higher premium for Medicare Part B. In addition, the premiums you pay for Medicare Part B are determined based on your income two years prior. For example, if you are enrolling in Medicare Part B for the first time in 2019, your income thresholds will be based on the income reported on your 2017 IRS tax return. If your income has gone down since that time, you may request a reduction in the income-related threshold adjustment by completing a form SSA-44 available from the Social Security Administration.

In 2019, the standard Part B premium will be $135.50. You will pay this amount if:

- You enroll in Medicare Part B for the first time in 2019, and
- You were not already receiving Social Security benefits at the end of 2018, and
- Your income falls below the lowest threshold in the table below.

2019 Part B Premiums

If you are Single with a Modified Adjusted Gross Income of:	If you are Married filing jointly and have a Modified Adjusted Gross Income of:	If you are Married but filing separately and have a Modified Adjusted Gross Income of:	Your Medicare Part B premium per person will be:
$85,000 or less	$170,000 or less	$85,000 or less	$135.50
$85,001 - $107,000	$170,001 - $214,000		$189.60
$107,001 - $133,500	$214,001 - $267,000		$270.90
$133,501 - $160,000	$267,001 - $320,000		$352.20
$160,001 - $499,999	$320,001 - $749,999	$85,001 - $414,999	$433.40
$500,000 and above	$750,000 and above	$415,000 and above	$460.50

(These amounts are for 2019 only, and apply only to those who meet the criteria in the prior section of this report.)

If you are already collecting Social Security benefits at the time you begin Medicare coverage, your premiums will be automatically deducted from your Social Security payment each month. If you are not receiving Social Security benefits, you must pay your Medicare premiums by check, credit card or automatic draft from a bank account.

You can find additional information about Medicare and its associated coverage at www.medicare.gov.

INCORPORATING LONG-TERM CARE INTO RETIREMENT PLANNING

The health-related costs we included in this report do not include costs you may incur for long-term care, and Medicare does not pay for most long-term care needs. Not everyone will need long-term care, but the longer you live, the greater your chances of needing some sort of assistance with daily activities. Additionally, specific medical conditions can increase your need for long-term care.

There are four basic types of long-term care:

- Remaining at home and hiring a service for household or care-related tasks—or asking family and friends to help out.
- Adult day services facilities that provide respite care for seniors, as well as support services for families.
- Assisted living facilities which are residential facilities that offer healthcare and personal services.
- Skilled nursing facilities that provide around the clock medical and personal care to residents.

Many people rely on family for care, most often for short-term care needs. Others are able to combine help from a service, part-time nurse, and/or adult day center to reduce the costs of long-term care or to delay the onset of full-time care.

According to the U.S. Department of Health and Human Services Administration on Aging, the average annual expenditures for long-term care across the United States in 2016 were:

Average Annual Expenditures for Long-Term Care

Adult Day Services (5 days per week, 52 weeks)	$17,680
Assisted Living Facility (private one-bedroom, 52 weeks)	$43,435
Home Health Care -- Homemaker Services (42 hours per week, 52 weeks)	$43,680
Home Health Care -- Home Health Aide (42 hours per week, 52 weeks)	$44,772
Nursing Home -- Semi-Private Room (365 days in residence)	$82,125
Nursing Home -- Private Room (365 days in residence)	$92,345

It's critical to plan for long-term care needs, even if you don't expect to have them. Of course, your first defense is to remain healthy as long as possible. In addition, you should begin to consider your opportunities for securing care, such as:

- Family and friends;
- Self-funding from your savings;
- Purchasing long-term care insurance;
- Purchasing a life insurance policy with a long-term care rider;
- Moving into a continuing care facility where you can transition from independent living into a skilled nursing facility at the appropriate time;
- Securing a reverse mortgage or home equity loan as a last resort.

PLANNING FOR HEALTHCARE IN RETIREMENT

While the numbers related to healthcare in retirement can be shocking, it's important that you begin to plan as early as possible. Now that you have an idea of the costs you can expect over your retirement horizon, you can begin taking a few steps in preparation:

- If you haven't already, commit to a healthy lifestyle. Moderate amounts of exercise and modest changes in eating habits can turn into significant health benefits.
- Discuss healthcare costs with your financial professional. These costs should be a part of your retirement income and spending plan.
- Prepare for unexpected expenses by setting aside savings dollars for potential healthcare needs.
- Do your homework. Learn what Medicare plans cover, as well as available resources in your community that can help you save on costs.

Important Disclosure

The Balanced Budget Act of 2015 created changes to the rules of Social Security. These rule changes, as interpreted by Social Security Solutions, Inc., have been implemented in the software that produced this report. However, it remains possible that there will be additional changes to the rules and to the software at a later date. You should not proceed with any claiming strategy without seeking advice from a qualified financial professional.

This report is for informational purposes only. All the information provided is based on Social Security rules, benefit calculations, and payout promises of existing Social Security policy at the time this report was printed. The purpose of the report is to educate and give general guidance to help craft a personalized approach to taking Social Security.

The Social Security claiming strategy highlighted in this report was generated based on information you provided. That information included estimates of your and, when applicable, your spouse's Primary Insurance Amount, life expectancy(ies), and date(s) of birth. If this information you provided, including your life expectancy projection(s), should prove wrong after the fact, then the primary strategy may not be the best strategy after the fact. Before selecting this or any other claiming strategy, you should analyze and compare it with other scenarios generated by your financial professional. The optimal strategy for a specific client depends, in part, on that client's tradeoff between the goals of maximizing expected lifetime benefits and minimizing the risk of outliving his or her financial assets. As such, it is ultimately the responsibility of the client to carefully consider the primary strategy before adopting it as his, her or their own. This report should be used only as a general guideline and not as the ultimate source of information about Social Security claiming strategies.

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This report and the analysis here within are based on certain assumptions selected by the financial professional who produced this report using our software about future economic conditions and events that may not turn out to be correct. The analysis in this report assumes the average wage growth will follow the predictions laid out in 2018 Intermediate, a cost of living adjustment in the amount of 1.5 percent will be given each year in the future, and future dollar amounts are discounted at a rate of 0.0 percent. Social Security Solutions, Inc.is under no obligation to update such written statements if conditions change or unexpected occurrences happen to affect the report afterwards.