



Reinventing Retirement®

Retiree Health Care

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Narrator: Welcome to our Fifteen Minute Finance presentation on Retiree Health Care. As we enter retirement, a couple of things typically happen related to health care. One is that we may lose health care insurance that had been provided by an employer. Another is that over time, we are likely to spend increasing amounts on medical care, as our health might decline. Add to that the fact that the cost of health care is rising faster than overall consumer costs.

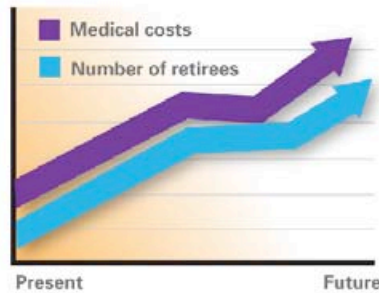
All of this means we have to pay special attention to our health care costs in retirement. And if we plan well enough before we actually retire, perhaps we'll be able to do more about it. Let's hear what John and Sue have to say. They are a fictitious couple that we use to give life to the strategies and situations that we discuss in these presentations. It can be helpful to hear a realistic dialogue between two people in a situation that may have similarities to yours.

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Retiree Health Care is a Growing Issue

Trends and issues:

- Medical costs keep rising
- Boomers will swell ranks of retirees
- We're living longer and longer
- Do you have a spare \$250,000?*



*Source: <http://www.fidelity.com/inside-fidelity/employer-services/fidelity-estimates-couple-retiring-in-2010-will-need-250000-to-cover-healthcare-costs>

Sue: John, have you given any thought to how we're going to pay for our health care in retirement? I've read that this could be an enormous issue in the next couple of decades as the baby boomers retire and more people face greater medical needs, higher costs and limited income.

John: Yes, Sue. Without being an alarmist, this is a huge issue and it's going to get more and more attention as more people enter retirement and have a new appreciation for exactly what health care will cost them in retirement. The most recent annual Retiree Health Care Costs Estimate study by Fidelity Investments estimates that the average 65-year-old couple retiring this year will need \$250,000 to pay for all their retirement medical costs.

Sue: Those are really sobering numbers, John. I guess if you figure on an average 20-year retirement, that comes to \$10,000 to \$12,500 a year in health care costs, including insurance premiums, deductibles, and out-of-pocket costs. Getting back to my question, John, how will we pay for our health care in retirement?

John: I think it'll be a patchwork. Let's break it down.



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Retiring: Transition into Retiree Health Care

Medicare Part A *Hospital insurance*

Medicare Part B *Medical insurance*

Medicare Part D *Prescription drug coverage*

*Remember to apply for Medicare 3 months
before you turn 65!*

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John: The average 65-and-older household spent \$4,658 on health care in 2008, according to a U.S. Labor Department survey.* That's a combination of out-of-pocket expenses plus premiums and deductibles for health insurance and co-pays. But if you don't have retiree health insurance coverage through a former employer, you're not completely on your own. If you have worked and paid Medicare taxes, you'll receive Medicare coverage. That includes Part A hospital insurance and Part B medical insurance, and you can also apply for Part D prescription drug coverage.

Medicare Part A helps pay for the cost of care in hospitals. It covers inpatient care and some home health care. It's available at no cost if you've paid Medicare taxes for 10 years, but you'll pay some out-of-pocket deductibles for any hospital stays. Medicare Part B helps pay the expenses of doctors' services, emergency room visits, ambulance, and outpatient hospital services, lab work and some other services. It costs at least \$110 per month, and there's an annual \$162 deductible.

Then there's optional Part D coverage, which covers prescription drugs. It protects you from unexpected drug expenses. It involves a monthly premium, and there are deductibles and co-insurance.

Once you account for premiums, deductibles, supplements and routine out-of-pocket costs plus co-payments and co-insurance, Medicare covers about half of a retiree's typical medical expenses.

It's also important to note that even if you are entitled to Medicare, you still have to apply for it. And that includes a situation where you keep working beyond age 65. You could apply just for Medicare at 65, and then for Social Security benefits whenever you're ready to start taking those benefits.

Sue: That's a lot to keep straight. And then there's something called Medigap, right?

John: Yes. That fills any gaps in Medicare coverage, but it will cost you.

*Sources:

Article:

<http://aharesourcecenter.wordpress.com/2010/08/24/consumer-health-care-spending-trends/>

Report:

http://www.bls.gov/opub/focus/volume1_number8/cex_1_8.htm

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Retiring: Transition into Retiree Health Care

- Medigap – Evaluate choices, price shop
- Long-term care



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Sue: My understanding of Medigap coverage is that it can be very expensive.

John: Well, it is, but you can get a decent rate if you shop around.

Sue: What are the options?

John: There are 12 variations and they're standardized, which makes it easier to price shop. Plan A offers the least coverage and Plan L offers the most comprehensive. Every Plan A offers the same coverage, and every Plan L is standard as well. The most popular option is Plan F. The cost may vary based on your health, age, and where you live. Depending on these factors and how comprehensive a Medigap Plan you opt for, you might pay less than \$1,000 or several thousand dollars a year for this supplemental coverage.

Medigap insurance policies are rated in three different ways. The first is issue-age related. That means the Medigap cost depends on your age when the policy is issued, and the amount won't increase as you age. Community rated means that age is not considered. Every new member pays the same amount. The third rating is attained-age related. The cost of this type of policy is based on the insured person's age when the policy begins. As you age, the premiums rise. This type might start out inexpensive, but the cost will rise over time.

Sue: So, once I know what I want – which kind of plan – all I need to do is shop around for the best price.

John: Yes, once you really know what you want, but first you have to do your homework to understand which features and type of price rating you want.

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John: By the way, one thing that Medigap doesn't cover is long-term care. So, if we want to consider protecting ourselves against the potentially exorbitant cost of long-term care, we should seriously think about long-term care insurance. And that will involve some research.

Sue: That's one thing I know something about because I was reading about it and researching it recently. I know that costs are quite high if you stay in a nursing home for any length of time and if you require round-the-clock home health care. Also, if you wait too long before buying long-term care insurance, the premiums could become very costly. So, we should seriously consider buying this insurance coverage soon if we're going to at all. And another option would be to self-insure, which basically means setting aside money in a separate account that is designated to cover this just in case we need it. And if we never need to use that money, we could end up leaving it to our heirs or spending it as we get on in years and if we feel comfortable tapping into it.

John: Having *too much* money set aside? I can't quite imagine that!

Sue: You never, know, John, but far better to save too much than not enough!

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Retiree Health Care: Other Options

Part-time job
with healthcare coverage

SPOUSAL
coverage

Other solutions...?

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John: We've taken a good look at Medicare in its various forms or parts plus Medigap and long-term care protection. We should at least look briefly at some other options for paying for health care after we retire, Sue.

Sue: O.K. What are they?

John: One is challenging in a way but could be very easy. It's simply to find a job, even a part-time job, in retirement that offers health care coverage. That could go a long way to defraying costs.

Sue: I like that idea. Thanks for offering, John!

John: Well, I didn't quite offer that, but I wouldn't mind looking into it. The other one is spousal coverage. We don't both need to have a job that offers health benefits as long as one of us has a benefits package that includes spousal coverage.

Sue: You don't miss a trick, John.

John: Well, let's hope it'll be my treat.

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Retiree Health: Preventative Medicine

Healthy lifestyle:

- Diet
- Exercise
- Don't smoke
- Sleep
- Mental activity
- Regular physical check-ups...



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Sue: Well, John, we've talked about medical costs and ways to get insurance, but we haven't touched on a really effective way to lower costs.

John: You have an effective way of getting my attention, Sue. What is it?

Sue: It's preventive medicine. Living a healthy lifestyle and avoiding or reducing preventable diseases. And it doesn't cost anything. Eat a healthy diet, get regular exercise, don't smoke, drink in moderation — all of these elements can have a tremendous impact as you live through your 50s, 60s, 70s, and 80s, and beyond.

John: Very true, Sue. I'd rather go hiking, cycling or skiing with you than spend time visiting you in a hospital bed.

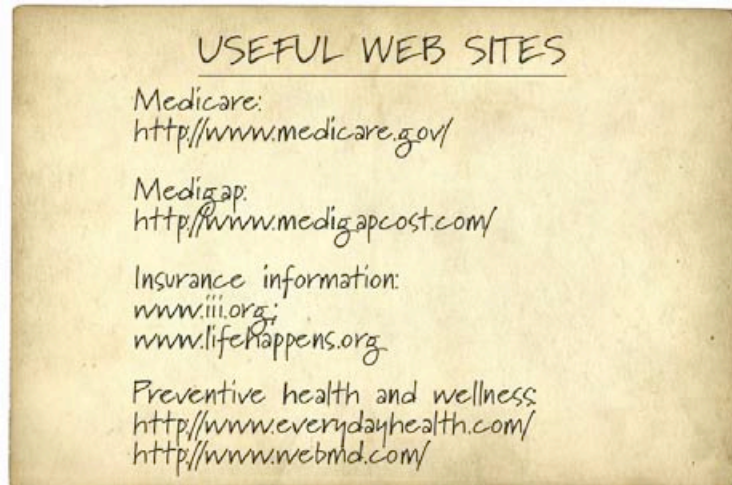
Sue: Visiting *me*!? Is that a challenge, John? Ready for a six-mile hike?

John: Maybe, but first I think I need to do the crossword puzzle and Sudoku.

Sue: O.K. Your priorities puzzle me, but I'm game. Another couple of things to remember are getting enough sleep, and seeing the doctor before you get sick. Regular physical check-ups are always important, especially after age 50.

John: Yes, ma'am, I do see the value in regular checkups, especially if they can catch things before it's too late.

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Sue: John, it's good to see we're on the same page on all of this. Speaking of which, there are many good web sites (and web pages) devoted to the things we've been talking about. There's easily accessible information about the many choices involved in Medicare and Medigap coverage, and good all-purpose sites with information on long-term care insurance and other types of insurance, including Medicare and Medigap. And medical websites that can help you make sure you're doing all that you can to stay healthy.

Narrator:

Because of rising costs and the likelihood that we'll need increasing medical attention as we get older, this is a critically important part of retirement planning. Take the time to familiarize yourself with all of the components of retiree health care so that you can make informed decisions about Medicare, Medigap and paying for long-term care.

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Thank you

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