THE KNOWN UNKNOWN:

Helping Clients Prepare for Healthcare Costs in Retirement

Presented by: Patricia E. Gottier, CFP®
Retirement Directions LLC
Why is planning for healthcare costs so difficult?

- It’s the “Known Unknown”
- Constant change in the healthcare landscape:
  - Explosion of new technology
  - Legislative/policy changes
- The big “what-if” of long-term care planning; and
- Clients’ psychological barriers to facing long-term care, end-of-life issues;
What is the level of concern about healthcare costs with our clients?

RECENT SURVEYS:

John Hancock/Signator (pre-retirees & retirees) – Retirement healthcare costs, 55% **TOP** concern, 89% of some concern

Merrill Lynch/Age Wave (pre-retirees & retirees) – Healthcare expenses **TOP** financial worry, 52% (investable assets >$250K)

Nationwide (pre-retirees) – 61% *terrified* of healthcare costs, 71% cite as **TOP** concern

Fidelity® (pre-retirees) – 84% concerned about covering retirement healthcare costs
Major Factors Impacting Retirement Readiness Ratings™:

#4 REDUCTIONS IN SOCIAL SECURITY

#3 PRE-RETIREMENT INVESTMENT RETURN

#2 LONGEVITY

#1 HEALTHCARE COSTS (“STOCHASTIC”)

From Employee Benefits Research Institute, February 2014 Issue Brief, based on the EBRI Retirement Security Projection Model®
Impact of Various Factors on Late Boomers RRR®

- Reductions in SS: 2.2%
- Investment Return: 9.4%
- Longevity: 41.3%
- w/ "Stochastic" HC Costs: 50.6%

Increased % Failure Rate of Retirement Income Plan
Impact of Various Factors on Early Boomers RRR®

- Reducing in SS: 0.7%
- Investment Return: 8.5%
- Longevity: 37.9%
- w/ "Stochastic" HC Costs: 48.3%

Increased % Failure Rate of Retirement Income Plan
THIS PRESENTATION WILL COVER:

A. BUDGETING FOR ANNUAL HEALTHCARE COSTS;
B. LONG-TERM CARE: FACT-FINDING & STRESS-TESTING;
C. EDUCATING CLIENTS ABOUT HEALTHCARE CHOICES
D. BUILDING A LIST OF RESOURCES.

*It’s all about resources.* . .
Lump Sum Set-Aside vs. Annual Budgeting

$214,000**
Need by Average
65-year-old Couple on
Original Medicare to Fund
Lifetime Healthcare Costs

$3,000 to $24,000/Yr.
Medicare Premiums +
OOP Costs, Adjusted for
Income-Related Premiums & Inflation

@$15000/Yr. Assuming 7% Inflation, 6% Investment
Return, Set-Aside needed = $420,689

**Fidelity 2014 estimate not including LTC
ESTIMATING ANNUAL HEALTHCARE COSTS:
   A 5-Step Plan

1. Get a handle on premiums
2. Estimate out-of-pocket costs
3. Adjust for “medical inflation” rate
4. Adjust for income-related taxes
5. Build in flexibility
Let’s start with premiums. . .

### 2014 Traditional (Original) Medicare Premiums

<table>
<thead>
<tr>
<th>Monthly Premiums</th>
<th>Low Premium</th>
<th>Average Premium</th>
<th>High Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part A Hospital Insurance</td>
<td>No cost if qualified</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Part B Medical Insurance</td>
<td>$ 104.90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*†Part D Prescription Plan</td>
<td>$ 12.60</td>
<td><strong>$ 55.02</strong></td>
<td><strong>$ 144.40</strong></td>
</tr>
</tbody>
</table>

*Income <$85,000 single, $170,000 couple.

†Based on 29 NYC prescription plans.
Now add. . .

*2014 Premiums for Supplemental Coverage

<table>
<thead>
<tr>
<th>Monthly Premiums</th>
<th>Low Premium</th>
<th>Average Premium</th>
<th>High Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Medigap&quot; (optional Medicare Supplement)</td>
<td>$ 64.00</td>
<td>$ 281.79</td>
<td>$ 469.36</td>
</tr>
</tbody>
</table>

OR

Retiree Health Coverage: Check with employer for costs

*Based on NYC premiums for plans Medigap A – N.
Or the alternative:

*2014 Premiums for “All-in-One” Medicare Advantage

<table>
<thead>
<tr>
<th>Monthly Premiums</th>
<th>Low Premium</th>
<th>Average Premium</th>
<th>High Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare Advantage Plan</td>
<td>$0</td>
<td>$ 17.84</td>
<td>$ 161.50</td>
</tr>
<tr>
<td>&quot;All-in-One&quot; Medicare</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Based on 35 NYC plans with prescription coverage.
### Traditional Medicare Couple Annual Costs

**An Example:**

<table>
<thead>
<tr>
<th>Monthly Cost</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare Part A</td>
<td>No cost if qualified</td>
</tr>
<tr>
<td>Medicare Part B*</td>
<td>$ 209.80</td>
</tr>
<tr>
<td>Medigap Plan A†</td>
<td>$ 246.08</td>
</tr>
<tr>
<td>Medigap Plan F†</td>
<td>$ 373.25</td>
</tr>
<tr>
<td>Part D Prescription Plan*†</td>
<td>$ 110.04</td>
</tr>
<tr>
<td>Total Monthly Premiums</td>
<td>$ 565.92</td>
</tr>
<tr>
<td>x12=Total Annual Costs</td>
<td>$ 6,791.04</td>
</tr>
<tr>
<td>plus Out-of-Pocket Costs</td>
<td>???</td>
</tr>
</tbody>
</table>

*Income <$170,000 for a couple.*
### Medicare Advantage Couple Annual Costs

**An Example:**

<table>
<thead>
<tr>
<th>Monthly Cost</th>
<th>No cost if qualified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare Part A</td>
<td>$209.80</td>
</tr>
<tr>
<td>Medicare Part B*</td>
<td>$209.80</td>
</tr>
<tr>
<td>Medicare Advantage (Range)†</td>
<td>$323.00</td>
</tr>
<tr>
<td>Total Monthly Premiums</td>
<td>$532.80</td>
</tr>
<tr>
<td>x12=Total Annual Costs</td>
<td>$2,517.60, $6,393.60</td>
</tr>
<tr>
<td>plus Out-of-Pocket Costs</td>
<td>???, ???</td>
</tr>
</tbody>
</table>

*Income <$170,000 for a couple.*

†Range of least expensive to most expensive MA plan.
Is Medicare Advantage an advantage?
Exhibit 1

Total Medicare Private Health Plan Enrollment, 1999-2014

In millions:

<table>
<thead>
<tr>
<th>Year</th>
<th>Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>6.9</td>
</tr>
<tr>
<td>2000</td>
<td>6.8</td>
</tr>
<tr>
<td>2001</td>
<td>6.2</td>
</tr>
<tr>
<td>2002</td>
<td>5.6</td>
</tr>
<tr>
<td>2003</td>
<td>5.3</td>
</tr>
<tr>
<td>2004</td>
<td>5.3</td>
</tr>
<tr>
<td>2005</td>
<td>5.6</td>
</tr>
<tr>
<td>2006</td>
<td>6.8</td>
</tr>
<tr>
<td>2007</td>
<td>8.4</td>
</tr>
<tr>
<td>2008</td>
<td>9.7</td>
</tr>
<tr>
<td>2009</td>
<td>10.5</td>
</tr>
<tr>
<td>2010</td>
<td>11.1</td>
</tr>
<tr>
<td>2011</td>
<td>11.9</td>
</tr>
<tr>
<td>2012</td>
<td>13.1</td>
</tr>
<tr>
<td>2013</td>
<td>14.4</td>
</tr>
<tr>
<td>2014</td>
<td>15.7</td>
</tr>
</tbody>
</table>

% of Medicare Beneficiaries:

<table>
<thead>
<tr>
<th>Year</th>
<th>% of Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>18%</td>
</tr>
<tr>
<td>2000</td>
<td>17%</td>
</tr>
<tr>
<td>2001</td>
<td>15%</td>
</tr>
<tr>
<td>2002</td>
<td>14%</td>
</tr>
<tr>
<td>2003</td>
<td>13%</td>
</tr>
<tr>
<td>2004</td>
<td>13%</td>
</tr>
<tr>
<td>2005</td>
<td>13%</td>
</tr>
<tr>
<td>2006</td>
<td>16%</td>
</tr>
<tr>
<td>2007</td>
<td>19%</td>
</tr>
<tr>
<td>2008</td>
<td>22%</td>
</tr>
<tr>
<td>2009</td>
<td>23%</td>
</tr>
<tr>
<td>2010</td>
<td>24%</td>
</tr>
<tr>
<td>2011</td>
<td>25%</td>
</tr>
<tr>
<td>2012</td>
<td>27%</td>
</tr>
<tr>
<td>2013</td>
<td>28%</td>
</tr>
<tr>
<td>2014</td>
<td>30%</td>
</tr>
</tbody>
</table>

NOTE: Includes MSAs, cost plans, demonstration plans, and Special Needs Plans as well as other Medicare Advantage plans.
Let’s take a look at the Plan Finder. . .

It has information on:
- Original Medicare;
- Prescription Plans;
- Medicare Supplements (Medigap);
- Medicare Advantage Plans; and
- Estimated out-of-pocket costs for each plan.

All in a specific location.

Medicare.gov/PlanFinder
What else can be found on Medicare.gov?

A wealth of guides and pamphlets:

- Medicare & You
- Your Medicare Benefits
- Medicare Premiums: Rules for Higher-Income Beneficiaries
- Choosing a Medigap Policy
- Your Guide to Medicare Prescription Drug Coverage
- Have You Done Your Yearly Medicare Plan Review?
- Medicare Rights
**Methods to Estimate Out-of-Pocket Costs:**

1. Manually estimate annual co-pays and deductibles, cost of medications, unreimbursed dental, vision and hearing costs.

2. [Medicare.gov Plan Finder](http://www.medicare.gov) has estimates of *average gross annual costs* related to the various Medicare plans.


4. Clients with high medical costs can assume the maximum out-of-pocket limit.

5. Software is available from other sources which will give you *average* out-of-pocket expenditures.
## Projected Healthcare Inflation Rates 2014 - 2022

<table>
<thead>
<tr>
<th>Category</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare Premiums</td>
<td>5.46%</td>
</tr>
<tr>
<td>Total Healthcare Consumption (per capita)</td>
<td>5.31%</td>
</tr>
<tr>
<td>Total Out-of-Pocket Payments (per capita)</td>
<td>3.53%</td>
</tr>
<tr>
<td>Nursing/Continuing Care (per capita)</td>
<td>5.23%</td>
</tr>
<tr>
<td>Home Health (per capita)</td>
<td>6.79%</td>
</tr>
<tr>
<td>Prescription Drugs (per capita)</td>
<td>5.54%</td>
</tr>
</tbody>
</table>

Calculated from projected costs in the 2013 CMS Annual Report of the Federal Hospital Insurance & Federal Medical Insurance Trust Funds.
Here’s the problem:

- As we age, we face general healthcare cost inflation **AND**

- Our costs rise because our health tends to worsen **AND**

- The healthy are likely to live *longer* and be faced with potentially higher lifetime costs.

It’s a triple whammy!!!
What healthcare inflation rate should we use as financial planners?

7%

Compared with:

2013 General U.S. Inflation: 1.47%
Average Annual Inflation 1913-2013: 3.22%
Projected General Inflation (??): 3.00%
# Be Aware of the Medicare “Cliff Brackets”

<table>
<thead>
<tr>
<th>Your Annual Income (MAGI)*</th>
<th>Your 2014 Part B Premium</th>
<th>Your 2014 Part D Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals</td>
<td>Couples</td>
<td></td>
</tr>
<tr>
<td>$85,000 or below</td>
<td>$170,000 or below</td>
<td>$104.90</td>
</tr>
<tr>
<td>$85,001 - $107,000</td>
<td>$170,001 - $214,000</td>
<td>$146.90</td>
</tr>
<tr>
<td>$107,001 - $160,000</td>
<td>$214,001 - $320,000</td>
<td>$209.80</td>
</tr>
<tr>
<td>$160,001 - $214,000</td>
<td>$320,001 - $428,000</td>
<td>$272.70</td>
</tr>
<tr>
<td>Above $214,000</td>
<td>Above $428,000</td>
<td>$335.70</td>
</tr>
</tbody>
</table>

*Medicare MAGI includes tax-exempt bond interest
<table>
<thead>
<tr>
<th></th>
<th>2012**</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Total Part B Enrollment</td>
<td>5.1%</td>
<td>9.7%</td>
</tr>
<tr>
<td># of Benes Paying Income-Related Premiums</td>
<td>2.4 million</td>
<td>5.5 million</td>
</tr>
</tbody>
</table>

* Kaiser Family Foundation estimates
** First year brackets frozen
Roth IRAs, HSAs which provide tax-free income can help.

Tax-exempt bond interest does NOT help – it is included in Medicare MAGI.

Can’t do much to avoid them but don’t make the problem worse!!

Be aware when doing end-of-year tax planning.

In certain situations, clients can appeal.
Building Flexibility into Retirement Plans

- Revisit medical costs as part of your annual review.
- Medical costs can be incorporated into flexible withdrawal strategies.
- May be possible to identify specific sources of income.
The Challenges of Long-Term Care Planning

- Difficult to predict costs and determine the amount to insure
- Difficult market for long-term care insurance
- Medicaid qualification likely to tighten in the future
- Senior housing and long-term care options evolving.
There is no substitute for a conversation with your clients.

- Find out what they know and don’t know about Medicare and long-term care.
- Find out what experiences they have had with parents and friends.
- Discuss senior housing options and what kind of care they envision if their health fails.
- Ask how they plan to cover the cost of long-term care and help them evaluate whether or not their plan is reasonable.
Scenario planning and “stress-testing” for long-term care events can be helpful. . .

An Example:

- Couple: Stephen, aged 69, Jeanne aged 56.
- Stephen has debilitating, but not fatal condition, likely to require care; he is uninsurable for long-term care insurance;
- Jeanne is 13 years younger, still working and unlikely to be able to provide care;
- Stephen recently received significant inheritance in addition to assets accumulated during their working careers;
- No children – do not need to preserve assets for heirs.
A report showing the effect of a long-term care event on their portfolio is helpful, but. . .
Scenarios allow us to compare different possibilities side by side.

Test of two scenarios of 6 years nursing care for Stephen:

<table>
<thead>
<tr>
<th>Early: age 75</th>
<th>Later: age 85</th>
</tr>
</thead>
</table>

**Monte Carlo Results**

- **Likelihood of Funding All Goals**
  - Probability of success: Early - 90%, Later - 75%
  - Your Confidence Zone: 75% - 90%

<table>
<thead>
<tr>
<th>Total Spending:</th>
<th>$2,899,653</th>
<th>$3,211,617</th>
</tr>
</thead>
</table>

**Key Assumptions**

- 6Yrs.Care/Nolns/Bal2
- Stress Tests
Scenarios allow us to show the impact of a recommended course of action.

Test of two scenarios: 4 yrs. nursing care for both Jeanne & Steve - with and without LTC insurance for Jeanne.

What If Worksheet

Monte Carlo Results

<table>
<thead>
<tr>
<th>Likelihood of Funding All Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your Confidence Zone: 75% - 90%</td>
</tr>
</tbody>
</table>

- Probability of success 67%
- Probability of success 93%

Total Spending:
- $3,444,453
- $3,616,353

Key Assumptions
- 4Yrs.x2LTC/NoIns
- 4Yrs.x2LTC/Insurance

Stress Tests
In light of the difficult market for LTC insurance.

- Always ask if a client’s employer offers group LTC or if multiple applicants in a small company could receive a discount.
- Consider products which combine life insurance or an annuity with LTC benefits.
- It’s acceptable to partially insure clients as long as they have an overall plan to deal with LTC expenses.
- NY Partnership policies are an option for some clients.
I'll trade you the health care bill for the hospital bill...
True or False?

*We have no control over medical costs.*
We can educate our clients about ways they can anticipate and bring down their own family’s medical expenses by:

1. Finding a geriatric care manager for family members *early*, not when care is needed immediately.

2. Visiting an elder law attorney *early*, not when family members need to qualify for Medicaid immediately.

3. Getting written estimates from providers and insurers *before* undergoing any procedures.

Some Unsettling Facts About End-of-Life Health Care

28% of the $585 billion of Medicare spending in 2013 was spent on the last 6 months of life (Medicare News Group, June 2013).

43% of Medicare beneficiaries spend more than their total assets (less home value) on out-of-pocket healthcare expenses in their last 5 years of life (Journal of General Internal Medicine, Sept 2012).

55% of patients who said they would prefer to die at home died in the hospital (Dartmouth Atlas of Health Care).
A Few Words About Advance Healthcare Directives

- **Health Care Proxy/Power of Attorney**: Names an agent to make healthcare decisions in case of patient’s incapacity.

- **Living Will**: Outlines a person’s wishes re: use of life-sustaining treatments, dying at home, and organ donation.

- **Medical Orders for Life Sustaining Treatment (NY MOLST form)**: Essential for seriously ill patients, the only form documenting DNR or DNI orders across healthcare settings.
Let Your Clients Know About **Resources** to Help Them with Healthcare Choices & Costs

- Shop for Medicare Plans
- Compare the Cost of Medical Procedures (Believe it or not, there’s an app for that!)
- Find Patient and Medical Billing Advocates
- Search for Senior Housing Options, Long-Term Care, Geriatric Care Managers and In-Home Administrators
- Discuss Their End-of-Life Choices with Family Members
Your clients will thank you
...and so do I.

Thank you, All!

Patricia E. Gottier, CLU®, CFP®
Retirement Directions LLC
pgottier@nyc.rr.com 212-280-5910

Copyright © 2014 COPYRIGHT
Patricia E. Gottier. All Rights Reserved.
The Known Unknown: Helping Clients Prepare for Health Care Costs in Retirement
Resource Sheet

Medicare Information

https://www.medicare.gov (Medicare official government website)
https://www.medicare.gov/find-a-plan/questions/home.aspx (Medicare Plan Finder)

- Medicare & You
- Your Medicare Benefits
- Medicare Rights & Protections
- Medicare Advantage vs. Medigap
- Choosing a Medigap Policy
- Your Guide to Medicare Prescription Drug Coverage
- Have You Done Your Yearly Medicare Plan Review?
- Your Guide to Medicare Medical Savings Account (MSA) Plans
- Your Guide to Medicare’s Preventive Services

http://www.ssa.gov (Social Security Administration)

- Medicare Premiums: Rules for Higher-Income Beneficiaries

http://www.cms.gov (Center for Medicare & Medicaid Services official website)
http://www.medicarerights.org (Medicare Rights Center)
http://www.medicarerightsuniversity.org (Medicare Rights Training Program)


http://www.dfs.ny.gov/consumer (NYS Department of Financial Services)

Medicare Plans

http://www.FindMedicarePlans.com (Medicare plans only)
http://healthcarenavigation.com (Medicare plans and healthcare advocacy)
http://www.aarp.org (Medicare plans/services and comprehensive advocacy for older Americans)
http://www.goodcare.com (Medicare/health insurance consulting, research, resources)

Elder Law

http://naela.org (National Academy of Elder Law Attorneys, Inc.)
http://abanet.org/aging/publications (American Bar Association Commission on Law and Aging)
The Known Unknown: Helping Clients Prepare for Health Care Costs in Retirement

Resource Sheet (page 2)

Health Policy & Research/Retirement Health Issues

http://www.commonwealthfund.org (Commonwealth Fund)
http://kff.org (Kaiser Family Foundation)
http://www.kaiserhealthnews.org (Kaiser Health News)
http://crr.bc.edu (Center for Retirement Research at Boston College, Search Health/Long-Term Care topics)
http://www.ebri.org (Employee Benefit Research Institute)
http://www.rwjf.org (Robert Wood Johnson Foundation)
http://www.aarp.org/research/ppi (AARP Research/Public Policy Institute)
http://nyshealthfoundation.org (NY State Health Foundation)
https://www.fidelity.com/viewpoints/retirement/retirees-medical-expenses (Fidelity Annual Survey on Retiree Health Care Costs)

Advance Directives

http://www.health.ny.gov/professionals/patients/patient_rights (NYS Department of Health, NY approved forms)
https://www.nysba.org/FHCDATA (NYS Bar, Family Health Care Decisions Act Information Center)
http://www.americanbar.org/groups/law_aging/MyHealthCareWishesApp.html (American Bar Association, download advance directives app)
http://www.agingwithdignity.org
http://www.compassionandsupport.org
http://www.practicalbioethics.org (Center for Practical Bioethics, Caring Conversations® workbook)

Senior Housing Options/Long-Term Care/Geriatric Care Management

http://www.health.ny.gov/facilities (NYS Department of Health, database of accredited NY facilities and agencies)
https://ny.getcare.com/nyprovider/consumer/indexNY.do (NY Office of the Aging, NY Connects, resources for care services and support)
http://www.aplaceformom.com (A Place for Mom, resources for senior care and housing)
http://www.seniorliving.org/new-york (Senior Living.org)
http://www.caremanager.org (National Association of Professional Geriatric Care Managers)
http://www.caring.com (Caring.com, search for Senior Housing, Home Care, Geriatric Care Managers)
The Known Unknown: Helping Clients Prepare for Health Care Costs in Retirement
Resource Sheet (page 3)

Senior Housing Options/Long-Term Care/Geriatric Care Management (cont.)

http://www.carepathways.com/HC-state-NY.cfm (Care Pathways, search for Home Care, Long-Term Care, Caregivers and other Professionals)

Patient Advocates/Billing Advocates/In-Home Administrators

http://www.patientadvocate.org (Patient Advocate Foundation)
http://www.claims.org (Alliance of Claims Assistance Professionals)
http://aadmm.org (American Association of Daily Money Managers)

Healthcare Cost Calculators

http://www.aarp.org/work/retirement-planning/the-aarp-healthcare-costs-calculator (AARP, free)
http://www.hvsfinancial.com (Healthview Services, subscription)

Medical Procedure Cost Comparison

http://www.opscost.com (OpsCost)
http://www.fairhealth.org (FAIR Health®)
http://fairhealthconsumer.org (FAIR Health® Consumer)
http://www.newchoicehealth.com (New Choice Health)
https://www.healthcarebluebook.com (Healthcare Bluebook)

Courtesy of:
Patricia E. Gottier, CLU®, CFP®
Retirement Directions LLC
pgottier@nyc.rr.com
212-280-5910