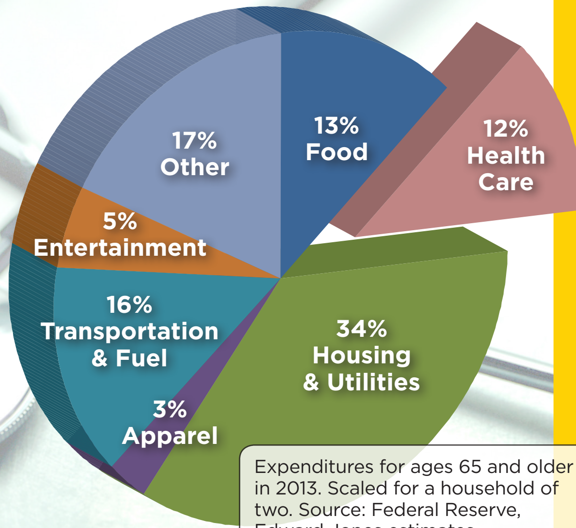
Health Care and Your Retirement

Advances in health care are providing opportunities for a longer retirement and better quality of life. But with this trend come rising costs, as health care continues to become a larger share of retirees' expenses. Twenty-five years ago, retirees spent almost twice as much on food as on health care; now the amounts are nearly the same. To better position yourself to live the retirement lifestyle you desire, it's important to first understand how much health care may cost and then develop a strategy with your Edward Jones financial advisor to cover those expenses.

Retiree Household Expenditures



Expenditures for ages 65 and older in 2013. Scaled for a household of two. Source: Federal Reserve, Edward Jones estimates.

Estimating Your Expenses

In general, there are two categories of medical expenses in retirement: traditional and long-term medical care. While the amount varies by individual, initially budgeting about $4,000 to $6,000 per year, per person for traditional medical expenses in retirement may be a good starting point. For long-term medical care, the amount budgeted really depends on how you plan to cover these expenses.

Estimated Annual Medicare Premiums (2015)	
Part A Avg. Annual Premium	$0*
Part B Avg. Annual Premium	$1,250
Part D Avg. Annual Premium	$450
Medigap Plan F Median Annual Premium	$2,300
Total Avg. Annual Premium Expense	**$4,000**

Source: Medicare, Kaiser Family Foundation, Edward Jones estimates. Amounts are rounded. Medigap and Medicare Part D are offered by insurance companies and are not standard parts of Medicare. Medigap Plan F is the most commonly selected Medigap plan.

*Must have paid 40 quarters of Medicare tax while employed. If paid less than 40 quarters, must pay premium up to $407 per month.

Traditional Medical Expenses

Medicare does not cover everything. Average annual premiums for Medicare for an individual with Parts A, B, D and Medigap could be nearly $4,000, and there would still be out-of-pocket costs for the items Medicare doesn't cover. As mentioned above, we believe initially budgeting $4,000 to $6,000 per year, per person is a good starting point for covering traditional medical expenses. Depending on your health, prescription drug usage and the supplemental insurance coverage you select, your costs could be higher or lower. To read more about Medicare and supplemental insurance, please refer to www.medicare.gov. By having a better estimate of these costs, your financial advisor can determine if your financial strategy is positioned to provide for your needs – and if not, what adjustments may need to be made.

Medicare-approved Insurance Plans

There are parts to Medicare offered by Medicare-approved insurance companies, including Part D (prescription drugs), Medigap (covers some gaps in Parts A and B), and Part C (Medicare Advantage – an alternative to Medicare and Medigap designed to replace Parts A, B, Medigap and potentially Part D). Importantly, while Medicare Parts A and B are fairly standard, these insurance plans have a multitude of options, each with varying coverage and cost.

For example, Medigap has 10 options (Plans A-N). The median Plan K has a premium of $75 per month, while the Plan F premium is $193 per month. Though its premiums are more expensive, Plan F (the most commonly selected plan) covers Part A and B deductibles, copays and coinsurance. Plan K does not cover the Part B deductible and only covers 50% of copays, coinsurance and the Part A deductible.* So while it may be tempting to select the cheapest option, it's critical to understand what is covered and select a plan that fits your needs – or your out-of-pocket costs might actually be higher.

*Source: Medicare, Edward Jones estimates.

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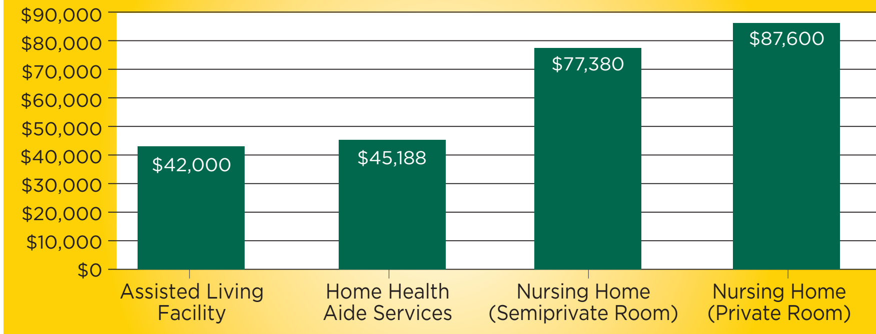
Long-term Medical Care Expenses

Of all the expenses Medicare doesn't cover, long-term care is potentially the biggest. Traditionally, it has implied nursing home care but also includes assisted living, home health care and adult day care, with costs varying based on the type and amount of care. While perhaps an unpleasant thought, nearly 40% of individuals over age 65 will spend some time in a nursing home. Although nearly 30% stay less than three months, half stay more than a year, and nearly 20% stay longer than five years.[1] Consequently, it's important to have a plan for covering long-term care costs.

Annual Cost of Long-term Care Options – 2014



Source: Genworth 2014 Cost of Care Survey; Home Health Aide Services assumes $21/hr, 44 hrs/week, 52 weeks/year.

Preparing for Long-term Care

While you may not control your need for care, you can control how you prepare for long-term care. For example, if care is necessary, there are ways to control where your care is administered – such as in your home. It's also important to prepare for rising costs. Even assuming a modest inflation rate of 3%, the cost of nursing home care could be over $175,000 per year in 25 years.

You can prepare for the potential cost of care in two ways: by incorporating these costs into your budget and "self-insuring," or by transferring the risk to an insurance company through insurance. You've worked hard to position yourself for an enjoyable retirement, so it's important to protect your income and assets from the potential effects of a long-term care stay.

Medicare Doesn't Cover Everything

Medicare is the primary source of health care coverage for retirees. However, while Medicare covers items such as in-hospital expenses (Part A) and doctor services, outpatient care and some preventive services (Part B), as well as prescription drugs (Part D), it doesn't pay for many items, including:

- Medicare premiums, deductibles and coinsurance
- Dental, hearing and eye care/exams
- Long-term care stays

As noted earlier, supplemental insurance like Medigap can help cover some of the items Medicare doesn't, but the programs still are not designed for long-term care. Medicare will cover only short-care stays (up to 100 days), covering a portion of the costs, and only if the stay is medical, stemming from a recent hospital stay. Interestingly, Medicaid is the largest payer for long-term care, paying nearly one-third of all long-term care costs. However, because Medicaid generally is a program for individuals with low incomes and net worth, it is subject to strict income and asset tests. Therefore, you must typically spend down the majority of your assets before Medicaid is available.

Incorporating Long-term Care into Your Budget (Self-insuring)

Overall, the average nursing home stay is more than 2.5 years. Using this average as a starting point, you would need to budget more than $200,000 in today's dollars – and that wouldn't include the potential effects of inflation. Depending on your family history and gender, it may make sense to plan for a longer stay, as the average stay for a woman is 3.5 years versus 2 years for a man.[2]

Even if you don't anticipate needing nursing home care, you should still plan for some type of assisted living or home health care costs within your retirement strategy. The average cost of assisted living and home health care both average over $40,000 per year.[3] Your financial advisor can run scenarios to help determine if your strategy could withstand a long-term care expense for a number of years, including the effects of inflation.

Long-term Care and Your Spouse

If you're married, your retirement portfolio needs to provide for both of your needs throughout retirement. If assets earmarked for daily living instead must cover the cost of unexpected care, your and your surviving spouse's retirement could look a lot different, potentially affecting your surviving spouse's ability to live comfortably in retirement.

You can prepare for this scenario by incorporating long-term care into your retirement strategy. You can also consider life insurance as an asset-replacement strategy. Preparing can better help you provide for your own care and also help ensure your assets ultimately provide for a surviving spouse or other family members.

Insuring for Long-term Care

Insurance can be an important tool to help ensure your retirement assets are not depleted if you need long-term care. There are many options to consider, including:

Traditional Long-term Care Insurance

With traditional long-term care insurance (LTCi), you pay premiums to an insurance company in exchange for coverage of long-term care services. This coverage usually includes flexibility as to where your receive care (i.e., in a care facility or in your home). The policies and costs can vary dramatically based on factors such as your age, health, gender and the amount of coverage desired.

Things to Consider: Traditional Long-term Care Insurance

- **Highest amount of long-term care coverage:** This option typically provides the highest amount of long-term care coverage relative to other options, assuming the same premiums.
- **Potential for rising premiums:** Insurance companies have raised premiums in the past, given the trends of rising costs and longer stays, and could do so in the future – even after you purchase a policy.
- **Benefit of insurance vs. the "risk" of not needing it:** While no different than many other forms of insurance, there is the possibility you'll pay for insurance that you don't end up needing. That said, given the large potential costs of a long-term care stay, it's important to weigh the cost of the insurance with the risk of needing insurance and not having it.

Life Insurance with Permanent Chronic Illness Rider – Not Long-term Care Insurance

There are additional types of life insurance options (known as riders) that allow you to access your death benefit early for medical reasons. The most common are chronic illness riders, which we refer to as "permanent chronic illness riders," given their requirements. Usually permanent chronic illness riders require a doctor's evaluation that your condition is permanent and you are not expected to recover. This definition is different in long-term care riders, in which the covered condition could be recoverable (e.g., mild stroke, orthopedic surgery, etc.). Because of these differences, permanent chronic illness riders are not considered long-term care insurance and should not be used as a potential option for long-term health care.

Life Insurance with Long-term Care Benefits

Given some of the potential issues with traditional insurance – specifically, the potential for increased premiums and the risk of the insurance going unused – newer insurance options allow for the use of the death benefit in your life insurance policy to pay for long-term care costs. With these policies, any money used to pay for long-term health care directly reduces the death benefit (and cash value) of your life insurance policy. There may be fees for this additional coverage.

There are two main types:

Hybrid Life/Long-term Care Insurance: This type of policy can provide long-term care coverage in excess of your life insurance death benefit. For example, you could purchase a $100,000 life insurance policy that provides $300,000 worth of long-term health care coverage. Any money used for long-term care would directly reduce the death benefit first. We generally suggest considering this type of policy when your primary need is long-term health care insurance.

Life Insurance with a Long-term Care Rider: Similar to the hybrid policy, this policy would provide long-term health care coverage if needed – but the coverage is typically limited to the amount of your life insurance death benefit. We generally suggest considering this type of policy when your primary need is life insurance, but you also desire some protection against a potential long-term health care need.

Things to Consider: Life Insurance with Long-term Care Benefits

- **Lower amount of coverage relative to stand-alone options:** Since policies provide you with a death benefit if you do not need long-term care, the amount of long-term care coverage is generally less than if you allocated a similar dollar amount to traditional LTCi. Your death benefit would also typically be lower for these policies than if you bought a traditional life insurance policy with the same dollar amount.
- **Potential for guaranteed premiums:** For hybrid life/long-term care policies, your premiums are typically fixed/guaranteed. But these policies often require a larger upfront payment relative to LTCi.

When to Plan for Long-term Care

While long-term care is typically needed when you're older and retired, we believe it is best to begin thinking about long-term care before you retire. Even though most purchase long-term care insurance between ages 50 and 75, considering it between ages 55 and 65 may be important for the following reasons:

- Insurance premiums tend to be lower. Once you retire, the expense should be a lower percentage of your overall retirement expenses.
- Your health will likely be better and not prohibit you from obtaining a policy.
- You may still be working and better positioned to pay the premiums from your salary.

This illustrates that there are benefits to incorporating a plan for long-term care in your strategy even when you're younger.

A Healthy Retirement Portfolio

While health care costs may be beyond your control, you can control how you prepare, which includes a strategy for covering both traditional and long-term care expenses. But health care is just one of many important factors to review prior to your retirement, such as when to take Social Security and how to generate sufficient income during retirement. Your Edward Jones financial advisor can work with you to better understand your desired retirement lifestyle, estimated expenses (including health care) and sources of income to develop a retirement strategy to help you achieve these goals.

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1 Department of Health and Human Services
2 "Double Jeopardy," Mary Quist-Newins, Aug. 1, 2009
3 Genworth 2014 Cost of Care survey

We have provided this information for educational purposes, and it isn't meant to promote the sale of insurance or investments. Edward Jones doesn't offer health insurance; however, we believe discussing the impact of health care costs within your retirement strategy is important, especially considering that rising health care costs may affect many investors approaching retirement. The examples used in this report are for illustrative purposes only and shouldn't be relied upon as a quote or description of coverage for a particular insurance product. While the Medicare content is believed to be accurate, you should rely on information provided by the organization before making a Medicare decision.

An Ounce of Prevention ...

To help prepare for health care in retirement, we recommend the following actions:

- **Outline your retirement goals.** This includes when you want to retire, which will determine if there may be gaps in coverage before you become eligible for Medicare at age 65.
- **Know the key dates.** There is a seven-month window for enrolling in Medicare, beginning three months before your 65th birthday.
- **Evaluate insurance options.** For Medicare Part D and Medigap or Part C, ensure you are selecting a plan that provides coverage aligned with your needs.
- **Develop a strategy for long-term care.** Whether it's through self-insuring or purchasing insurance coverage, determine how you may pay for a potential long-term care need.
- **Estimate your costs.** The estimates in this report are a start, but we recommend estimating based on your situation, supplemental insurance (if selected) and potential out-of-pocket costs.
- **Invest for growth and rising income.** To help hedge against rising costs as well as provide for future income needs, a portion of your assets should be allocated to investments with the potential for growth and rising income.
- **Consider health care directives.** Consult your attorney regarding the documentation of who has responsibility for your health care decisions and how you want care to be administered if you become unable to make these decisions yourself.

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