Planning for health care in retirement

A guide to covering your medical expenses
You can stay on top of health care expenses

The *confidence of knowing* your health care is covered – one of the most valuable things you can take into retirement

Today's agenda:

- Gain insight into health care costs
- Look into Medicare – what it covers and what it costs
- Outline a 4-step process for creating a health care plan
Rising health care costs – a reality of retirement

Health care costs have *quadrupled* since the early ’80s


The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.
One of the largest household budget items

1. Food
2. Health care
3. Housing

Health care represents 20% of your total monthly expenses, on average.

Based on 2010 Fidelity survey. Fidelity surveyed 376 married individuals 65 years or older and not working full time.
Multiple factors drive up health care costs

Medical services
• Cost of knee replacements rose 70% over last decade\(^1\)

Diagnostic testing
• Cost of MRI/CT/PET scans tripled over last decade\(^1\)

Prescription drugs
• Number of prescriptions continues to grow, up 55% from 1998 to 2013.\(^2\)

2. Sources: NDCHealth and Kaiser Family Foundation.
Medicare won’t cover all health care expenses

Medicare may only cover approximately 60% of your health expenses

Out-of-pocket health care expense estimate for a 65-year-old couple

$220,000

People may underestimate these costs by more than 50%

2. Fidelity’s Benefits Consulting, 2014. The estimate assumes no employer-provided retiree health care coverage and applies to retirees with traditional Medicare insurance coverage with life expectancies of 17 years for men and 20 years for women.
3. Fidelity-sponsored HSA Survey, conducted by GfK Public Affairs & Corporate Communications, February 2013. The HSA survey was conducted by GfK Public Affairs & Corporate Communications from February 4 to 20, 2013. The study was conducted among a nationally representative sample of 1,836 U.S. adults ages 25–64 with a household income of $25,000 or more. Respondents also have primary or shared responsibility for household financial decisions and receive health care benefits through their own or their spouse’s employer. Nearly half (48%) of the pre-retirees aged 55–64 surveyed estimated they would need only $50,000 for health care expenses in retirement.
Your out-of-pocket costs may vary

Individual costs depend on:

Personal factors
- Age at retirement
- Years in retirement
- General health

Your risk comfort level
How much coverage will you plan for?
Learn about your options and get started on your plan

Steps you can take *right now:*

1. Get to know Medicare
2. Estimate your annual Medicare costs
3. Take stock of your funding sources
4. Create a health care plan with your financial advisor
Get to know Medicare

What are your Medicare options?

<table>
<thead>
<tr>
<th>Part</th>
<th>Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part A</td>
<td>Hospital insurance</td>
</tr>
<tr>
<td>Part B</td>
<td>Medical insurance</td>
</tr>
<tr>
<td>Part D</td>
<td>Prescription drug coverage</td>
</tr>
<tr>
<td>Medigap</td>
<td>Medicare supplemental insurance</td>
</tr>
<tr>
<td>Part C</td>
<td>Medicare Advantage Plans</td>
</tr>
</tbody>
</table>
Key Dates for Medicare

**Part A & B**
Regular Medicare
- 3 months before reaching age 65 (7-month enrollment window)
- Late enrollment penalty, some exceptions apply

**Part D**
Prescription drug coverage
- Initial enrollment deadline is the same as Parts A & B
- October 15–December 7 annual enrollment window for changes

**Part C**
Medicare Advantage plans
- Similar to regular Medicare (Parts A & B)
- October 15–December 7 to add, drop, or change
- January 1–February 14 to drop existing plan and switch to regular Medicare if plan is nonrenewing
- Calendar-year enrollment
- Limited ability to make changes
### Step 1: Medicare Part A

**Hospital insurance**

<table>
<thead>
<tr>
<th>In-hospital stay in 2015 (per benefit period)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days 1–60</td>
<td>$1,260 deductible</td>
</tr>
<tr>
<td>Days 61–90</td>
<td>$315 per day copayment</td>
</tr>
<tr>
<td>Days 91–150</td>
<td>$630 per “lifetime reserve day”</td>
</tr>
<tr>
<td>Days 150+</td>
<td>All costs</td>
</tr>
</tbody>
</table>

Medicare Part B (medical insurance)

**STEP 1**

In 2015, you can expect to pay:

- **$147 deductible**
- **20% coinsurance for doctors' services and outpatient care**

### Standard monthly premium*

<table>
<thead>
<tr>
<th>Individual filer AGI</th>
<th>Joint filer AGI</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>$85,000 or less</td>
<td>$170,000 or less</td>
<td>$104.90</td>
</tr>
<tr>
<td>$85,001 up to $107,000</td>
<td>$170,001 up to $214,000</td>
<td>$146.90</td>
</tr>
<tr>
<td>$107,001 up to $160,000</td>
<td>$214,001 up to $320,000</td>
<td>$209.80</td>
</tr>
<tr>
<td>$160,001 up to $214,000</td>
<td>$320,001 up to $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>

**Note:** 2015 premiums are based on yearly income in 2013 (modified adjusted gross income as reported on an IRS tax return). Source: Medicare.gov, 2014.
Understanding Medicare

Prescription drug coverage in 2015

- **You pay**
- **Medicare pays**

**Limited Medicare coverage in donut hole**
- Beneficiary pays 5% (min. copay); $2.65 generic or $6.60 brand
- $6,680 in total drug costs
- $4,700 out-of-pocket reached

**95% Medicare benefit (catastrophic coverage)**
- Beneficiary pays 5% (min. copay); $2.65 generic or $6.60 brand
- $6,680 in total drug costs
- $4,700 out-of-pocket reached

**75% Medicare benefit (initial coverage)**
- Beneficiary pays 25% or $660

**$320 Deductible**
- Beneficiary pays 100% or $320

The donut hole is large and costly.

Supplemental Medicare insurance

<table>
<thead>
<tr>
<th>Feature</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 standard plans offering different levels of coverage</td>
<td></td>
</tr>
<tr>
<td>Premium cost for same coverage varies by insurance company and state where purchased</td>
<td></td>
</tr>
<tr>
<td>Flexibility to see any doctor who accepts Medicare</td>
<td></td>
</tr>
<tr>
<td>No prescription drug coverage</td>
<td></td>
</tr>
<tr>
<td>No coverage for dental, hearing, or vision</td>
<td></td>
</tr>
</tbody>
</table>
**Medicare Part C**

**Medicare Advantage plans**

<table>
<thead>
<tr>
<th>HMOs, PPOs, private fee-for-service plans, Medicare specialty plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address Part A and Part B expenses and may cover prescription drugs</td>
</tr>
<tr>
<td>Costs may increase if you use out-of-network doctors</td>
</tr>
<tr>
<td>Hearing, dental, and vision may be covered</td>
</tr>
</tbody>
</table>
Questions to weigh when considering plan options

- Do you have coverage for dental, hearing, and vision care – services not covered by Medicare?
- Is it important for you to continue seeing your current physicians?
- Have you estimated the total out-of-pocket costs for prescription drugs?
- Do you want flexibility to choose providers – particularly specialists?
- Do you have protection from catastrophic illness?
### Hypothetical example:

**Medicare costs for a couple 65 years old with <$170K income**

<table>
<thead>
<tr>
<th>Part A</th>
<th>Covered by Medigap Plan F</th>
<th>$0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part B</td>
<td>Premium: deductible and coinsurance covered by Medigap</td>
<td>$1,259</td>
</tr>
<tr>
<td>Part D</td>
<td>Premium and deductible¹</td>
<td>$2,014</td>
</tr>
<tr>
<td>Medigap Plan F</td>
<td>Premium²</td>
<td>$2,180</td>
</tr>
<tr>
<td><strong>Annual total</strong></td>
<td><strong>Per person</strong></td>
<td><strong>$5,453</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Per couple</strong></td>
<td><strong>$10,906</strong></td>
</tr>
</tbody>
</table>

2. 2015 annual amount; Medicare.gov, 2014.
Online resources

- Medicare.gov
- ElderCare.gov
- AARP.org
- State Health Insurance Assistance programs (SHIPtalk.org)
- BenefitsCheckup.org
- SocialSecurity.gov
Take stock of your funding sources

Use your sources of dependable income to cover health care and other essential expenses

**Reliable income sources**
(Pension plan, Social Security, annuities)

**Essential expenses**

**Other income sources**
(mutual funds, stocks/bonds, CDs, IRAs, 401(k)s)

**Discretionary expenses**
(travel, entertainment, memberships)
Group income sources by dependability

**Reliable income sources**
- Pension
- Social Security
- Annuities

**Other income sources**
- Mutual funds, systematic withdrawals
- Bonds
- Real estate
- Life insurance
- Health Savings Accounts
- Part-time work
STEP 4
Create a health care plan with your financial advisor

Your advisor can help you:

- **Check** your health care expense estimates
- **Bucket** essential and discretionary expenses
- **Review** your sources of income
- **Create** a plan to ensure that your health care and other essential expenses are covered
- **Develop** a financial strategy for discretionary spending
Appendix

Additional health care topics
Retiring before Medicare eligibility

Pre-retirees need help

- **49%** workers retired earlier than expected\(^1\)
- **72%** large employers do not offer retiree health care to active employees\(^2\)
- **38%** employers plan to discontinue retiree health insurance for pre-65 retirees\(^3\)

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2. Kaiser Family Foundation, 2013. Large employers are those with 200 or more employees.
3. Towers Watson, July 2013. Includes 420 mid- to large-size companies, employing 8.7m people across industries, were surveyed.
Closing the coverage gap

You may have options for short-term coverage if you retire early

- Pay to continue coverage under COBRA
- Join a working spouse/partner’s plan
- Look for high-risk pools and pre-existing condition plans
- Find a part-time job: Less than 1/4 of part-time employees have health benefits*
- Get coverage through a health-care exchange
- Purchase private insurance

Patient Protection and Affordable Care Act

Designed to provide expanded coverage to uninsured

Coverage regardless of health or pre-existing conditions

Standardization of plan coverage
Minimum of 60% out-of-pocket expenses, including essential health benefits
No lifetime or annual limits

Coverage for dependent children until age 26

Expanded Medicaid coverage

Premium tax credits to low- and moderate-income households

Imposed mandates
### Coverage plans

<table>
<thead>
<tr>
<th>Plan</th>
<th>Coverage*</th>
<th>Avg. monthly premium before tax credits(^{i})</th>
<th>Typical deductible</th>
<th>Typical coinsurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bronze</td>
<td>60%</td>
<td>$289</td>
<td>$5,000</td>
<td>30%</td>
</tr>
<tr>
<td>Silver</td>
<td>70%</td>
<td>$345</td>
<td>$2,000</td>
<td>20%</td>
</tr>
<tr>
<td>Gold</td>
<td>80%</td>
<td>$428</td>
<td>$0</td>
<td>20%</td>
</tr>
<tr>
<td>Platinum</td>
<td>90%</td>
<td>$452</td>
<td>$0</td>
<td>10%</td>
</tr>
</tbody>
</table>

- Out-of-pocket costs cannot exceed $6,350 for individual / $12,700 for family
- People with incomes below 133% of the federal poverty level (FPL) now covered by Medicaid
- People between 100% and 400% of FPL eligible for assistance

* Percentage of total average costs the health plan will cover. Plans and coverage amounts vary by state.

* Assistant Secretary for Planning and Evaluation (ASPE) computation of Centers for Medicare & Medicaid Services (CMS) federally-facilitated marketplace data as of 5/12/14.

Source: Kaiser Family Foundation, August 2013; figures for individual coverage.

FPL for 2014 is $11,670 for individual and $23,850 for family of four.
For families with income between $23,850 and $95,400 (100%–400% of FPL)¹

HYPOTHETICAL EXAMPLE
Meet the Smiths:
Annual income is 300% of FPL = $70,650
Max contribution is 9.50% of income or $6,711.75 [approx. $559/month]
Premium tax credit = $6,788.25 [$13,500² minus max contribution amount]

Must obtain plan from a health-care exchange

MAXIMUM CONTRIBUTION TO PREMIUM FOR FAMILIES

<table>
<thead>
<tr>
<th>% of FPL</th>
<th>% of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% to 133%</td>
<td>2.00%</td>
</tr>
<tr>
<td>133% to 150%</td>
<td>3.00%–4.00%</td>
</tr>
<tr>
<td>150% to 200%</td>
<td>4.00%–6.30%</td>
</tr>
<tr>
<td>200% to 250%</td>
<td>6.30%–8.05%</td>
</tr>
<tr>
<td>250% to 300%</td>
<td>8.05%–9.50%</td>
</tr>
<tr>
<td>300% to 400%</td>
<td>9.50%</td>
</tr>
</tbody>
</table>

¹. FPL for 2014 is $11,670 for individuals and $23,850 for a family of four; source: U.S. Dept. of Health & Human Services website; March 2014.
². $13,500 is the national average premium for bronze plan; source: HHS.
### Individual mandate penalty

Penalties for no coverage are the greater of:

- Percent of yearly household income, not to exceed national average premium for Bronze plan*
- Specific amount per year, not to exceed a maximum amount

<table>
<thead>
<tr>
<th></th>
<th>Adult</th>
<th>Child</th>
<th>Total</th>
<th>% of income^</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$95</td>
<td>$47.50</td>
<td>$285</td>
<td>1.0%</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>$325</td>
<td>$162.50</td>
<td>$975</td>
<td>2.0%</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>$695</td>
<td>$347.50</td>
<td>$2,085</td>
<td>2.5%</td>
<td></td>
</tr>
</tbody>
</table>

Penalty amount will increase each year.

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* Source: Healthcare.gov.

* Average monthly premium by age for Bronze plan: age 30 – $262.69; age 40 – $295.51; age 50 – $413.16; age 60 – $627.10. Source: HealthPocket.

^ Income in excess of federal filing threshold.
Employer mandate penalty

Penalty imposed for employers not offering health insurance

**Employers with more than 100 employees**
- Provide benefits to 70% full-time employees by 2015; 95% by 2016
- $2,000 per-person penalty for no coverage (first 30 employees exempt)
- Health care coverage must be affordable and provide minimum coverage

**Employers with 50–99 employees**
- Effective 2016
- $2,000 per-person penalty for no coverage (first 30 full-time employees are exempt)

**Employers with fewer than 50 employees**
- No penalty for not offering coverage
- Eligible for subsidy or tax credit if coverage is offered

### New taxes to help offset [health care] costs

<table>
<thead>
<tr>
<th><strong>Taxes for high-income earners</strong> ($200k single filer/$250k joint filers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 0.9% increase on the existing Medicare income tax</td>
</tr>
<tr>
<td>• New 3.8% Medicare tax on unearned or investment income above 200k for single filer/$250k for joint filers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>40% excise tax on “Cadillac” plans</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Effective 2018 for high-premium plans (annual premium exceeds $10,200 for an individual or $27,500 for a family)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Annual fee paid by health insurance companies to participate in health insurance exchanges</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>33 million more Americans will have health insurance by 2016*</td>
</tr>
</tbody>
</table>

* Projection from Congressional Office Budget.
Timeline

9/23/10
Lifetime dollar limits on essential benefits are eliminated.
Cannot be excluded for existing conditions.
Policy holders cannot be "dropped" upon becoming ill.
Spending caps restricted.
Dependents can remain under parents' health care coverage until age 26.

8/1/12
No copays, coinsurance or deductibles for certain preventive services

1/1/13
New and additional Medicare taxes take effect

10/1/13
State Health Insurance Exchanges established

1/1/14
Individual mandate takes effect. Insurers cannot impose annual caps

1/1/15
Employer mandate takes effect (businesses with >100 employees); continues into 2016

1/1/16
Employer mandate takes effect (businesses with 50-100 employees)

1/1/18
40% excise tax on "Cadillac" plans
Important information

Not NCUA or NCUSIF insured. May lose value. No credit union guarantee.

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