Closing the Retirement Health Care Planning Gap: The Next Retirement Planning Challenge
Assumptions

- Health care expenses cannot be projected accurately
- Health care costs in retirement were not a burden to “The Greatest Generation”
- There has been a significant drop in health care inflation
- So health care should not be a problem for future retirees
- Doctors have little interest in caring for Medicare patients
• Retirees avoid medical treatment because of cost
• Some retirees choose death over treatment
• Others fly overseas for medical care
• Cost cutting attempts increase unit costs
• Administrative costs also continue to rise
• The Medicare bonus system
• Medicare patients are an important source of revenue
• Good health is directly correlated to income
Medicare Lingo

Original Medicare

Part A (Hospitalization)

Part B (Medical Coverage)

Part D (Drug Coverage)

MediGap Policy (Supplemental)

Part C Medicare Advantage Plans (A, B and D)
Since the Medicare Modernization Act was passed, premiums on Medicare Parts B & D are means tested.

Increased Medicare premiums for those with higher incomes as defined by MAGI.
## Means Testing

### Means Testing Thresholds

<table>
<thead>
<tr>
<th>Individuals</th>
<th>Couples</th>
<th>% Change in Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$85,000</td>
<td>&lt;$170,000</td>
<td></td>
</tr>
<tr>
<td>$85,001-$107,000</td>
<td>$170,001-$214,000</td>
<td>38%</td>
</tr>
<tr>
<td>$107,001-$160,000</td>
<td>$214,001-$320,000</td>
<td>97%</td>
</tr>
<tr>
<td>$160,001-$214,000</td>
<td>$320,001-$428,000</td>
<td>156%</td>
</tr>
<tr>
<td>$214,000+</td>
<td>$428,000+</td>
<td>213%</td>
</tr>
</tbody>
</table>
## Means Testing: 40 Year Old

<table>
<thead>
<tr>
<th>40 Year Old Scenarios</th>
<th>Current Earnings</th>
<th>Projected Earnings at 66</th>
<th>Means Testing Threshold</th>
<th>Projected Health Care Costs</th>
<th>Total Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>$40,000</td>
<td>&lt;$85,000</td>
<td>$85,000 or less</td>
<td></td>
<td>$441,440</td>
<td></td>
</tr>
<tr>
<td>$40,000</td>
<td>$86,264</td>
<td>$85,000-$107,000</td>
<td></td>
<td>$601,971</td>
<td>36%</td>
</tr>
<tr>
<td>$50,000</td>
<td>$107,930</td>
<td>$85,000-$107,000</td>
<td></td>
<td>$848,516</td>
<td>92%</td>
</tr>
<tr>
<td>$75,000</td>
<td>$161,744</td>
<td>$160,001-$214,000</td>
<td></td>
<td>$1,337,006</td>
<td>148%</td>
</tr>
</tbody>
</table>
Means Testing

Internal HVS data demonstrates that 40% of advisor clients are expected to incur Medicare surcharges.
Can a Robo Compete with This?

- $500,000 invested in a 60/35/5 portfolio
- Generates a 6% return for 5 years
- $169,000 in gains
- In one hour, an advisor can save a client $100,000 or more in health care costs
- So, this client would generate a 6% return plus the additional $100,000+ in disposable income
Product Mix

- Non-qualified annuity
- Life insurance
- Roth 401k
- Roth rollover
- Longevity Insurance
- HSA
- Reverse Mortgage
A Focus on Income and Expenses

• Social Security Benefits
• The Greatest Generation
  – 2014 annual average for a couple: $25,332
  – Average COLA: 4.5%
• Lifetime benefits: $1,143,699
• Baby Boomers
  – Average COLA: 2%
• Lifetime benefits: $826,921
• Difference: $316,778 in real dollars
A Focus on Income and Expenses

- **Supplemental and Prescription Drug Insurance**
- **The Greatest Generation**
  - MedSup: N/A
  - Drug Premiums: N/A

- **Baby Boomers**
  - MedSup: $132,137  $199,163
  - Drug Premiums: $49,749  $76,217
  - Total cost: $181,886  $275,380

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A Focus on Income and Expenses

- The bottom line: $592,158
- Annualized: $29,608
Health Care Inflation

Average Annual Percent Change in National Health Expenditures, 1960-2012

Health Care Inflation

- 2014 rate of inflation: 3.6%
- How can actuaries justify an overnight increase to 6%?
The Future

- CPI: 0.8%
- Inflation: 1.6%
- Health care: 3.6%
- Health care inflated at 4 times CPI and 2.25 times inflation
- What happens if inflation moves up to our historical average of 2.5% to 3%?
  - 5.63% to 6.75%
A Focus on Income and Expenses

- Inflation differential
- Health care: 6%
- COLA differential
  - The Greatest Generation: 1.5%
  - Baby Boomers: 4%
- Health Care to Social Security Index: 70%
## Impact by Age

### Annual Projected Costs vs Social Security COLAs
(In Future Dollars Based on 2% Annual COLA Increase)*

<table>
<thead>
<tr>
<th>Age</th>
<th>Annual Health Care Costs (in Future Dollars)</th>
<th>Social Security</th>
<th>Annual Difference</th>
<th>Percent of Social Security Dedicated to Health Care Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>70</td>
<td>$14,148</td>
<td>$32,799</td>
<td>$18,651</td>
<td>43%</td>
</tr>
<tr>
<td>75</td>
<td>$19,836</td>
<td>$36,213</td>
<td>$16,377</td>
<td>55%</td>
</tr>
<tr>
<td>80</td>
<td>$27,263</td>
<td>$39,981</td>
<td>$12,718</td>
<td>68%</td>
</tr>
<tr>
<td>85</td>
<td>$36,434</td>
<td>$44,143</td>
<td>$7,709</td>
<td>83%</td>
</tr>
<tr>
<td>87</td>
<td>$40,909</td>
<td>$45,927</td>
<td>$5,018</td>
<td>89%</td>
</tr>
</tbody>
</table>

*In Future Dollars Based on 2% Annual COLA Increase*
## Cost Differences Based on Selected Coverage

<table>
<thead>
<tr>
<th>Age</th>
<th>State</th>
<th>Life Exp.</th>
<th>Health Condition</th>
<th>Retire. Age</th>
<th>Income</th>
<th>Coverage</th>
<th>Health Care Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>65</td>
<td>Ohio</td>
<td>87</td>
<td>Healthy</td>
<td>65</td>
<td>Under $85,000</td>
<td>Medicare Part B and D, Premiums</td>
<td>$135,696</td>
</tr>
<tr>
<td>65</td>
<td>Ohio</td>
<td>87</td>
<td>Healthy</td>
<td>65</td>
<td>Under $85,000</td>
<td>Medicare Part B, D &amp; MedSup Premiums</td>
<td>$270,767</td>
</tr>
<tr>
<td>65</td>
<td>Ohio</td>
<td>87</td>
<td>Healthy</td>
<td>65</td>
<td>Under $85,000</td>
<td>Medicare Part B, D, MedSup &amp; Cost Sharing</td>
<td>$391,587</td>
</tr>
</tbody>
</table>
Surcharge

- Top bracket total cost: $670,962
- 394% increase over basic Medicare Premium costs
# Savings Needed

## Savings Required to Fund Basic Medicare Premiums by Time Horizon

<table>
<thead>
<tr>
<th>Age</th>
<th>Life Exp.</th>
<th>Retirement Age</th>
<th>Coverage</th>
<th>Total Cost</th>
<th>Required Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>60</td>
<td>86/89</td>
<td>65</td>
<td>Medicare Parts B, D Premiums</td>
<td>$154,158</td>
<td>$36,553</td>
</tr>
<tr>
<td>55</td>
<td>86/89</td>
<td>65</td>
<td>Medicare Part B, D Premiums</td>
<td>$182,447</td>
<td>$40,134</td>
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<tr>
<td>45</td>
<td>86/89</td>
<td>65</td>
<td>Medicare Part B, D Premiums</td>
<td>$257,831</td>
<td>$49,630</td>
</tr>
</tbody>
</table>
## Savings Required to Fund Basic Medicare and Supplemental Premiums by Time Horizon

<table>
<thead>
<tr>
<th>Age</th>
<th>Life Exp.</th>
<th>Retirement Age</th>
<th>Coverage</th>
<th>Total Cost</th>
<th>Required Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>60</td>
<td>86/89</td>
<td>65</td>
<td>Medicare Part D Premiums and Supp.</td>
<td>$287,450</td>
<td>$117,331</td>
</tr>
<tr>
<td>55</td>
<td>86/89</td>
<td>65</td>
<td>Medicare Part D Premiums and Supp.</td>
<td>$320,996</td>
<td>$112,870</td>
</tr>
<tr>
<td>45</td>
<td>86/89</td>
<td>65</td>
<td>Medicare Part D Premiums and Supp.</td>
<td>$407,525</td>
<td>$109,969</td>
</tr>
</tbody>
</table>
Summary

- We can project health care expenses
- Health care inflation has consistently risen two to three times the U.S. inflation rate
- Cost for a couple retiring 2015
  - $394,954 in today's dollars or $593,869 in future dollars
- Affluent investors can be responsible for up to a 220% Medicare surcharge
- Advisors can structure an investment plan that may actually lower the cost of health care in retirement
For More Information

• Contact HealthView at 855-339-2842
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  – Health care costs in retirement
  – Long-term care
  – Retirement savings
Questions?