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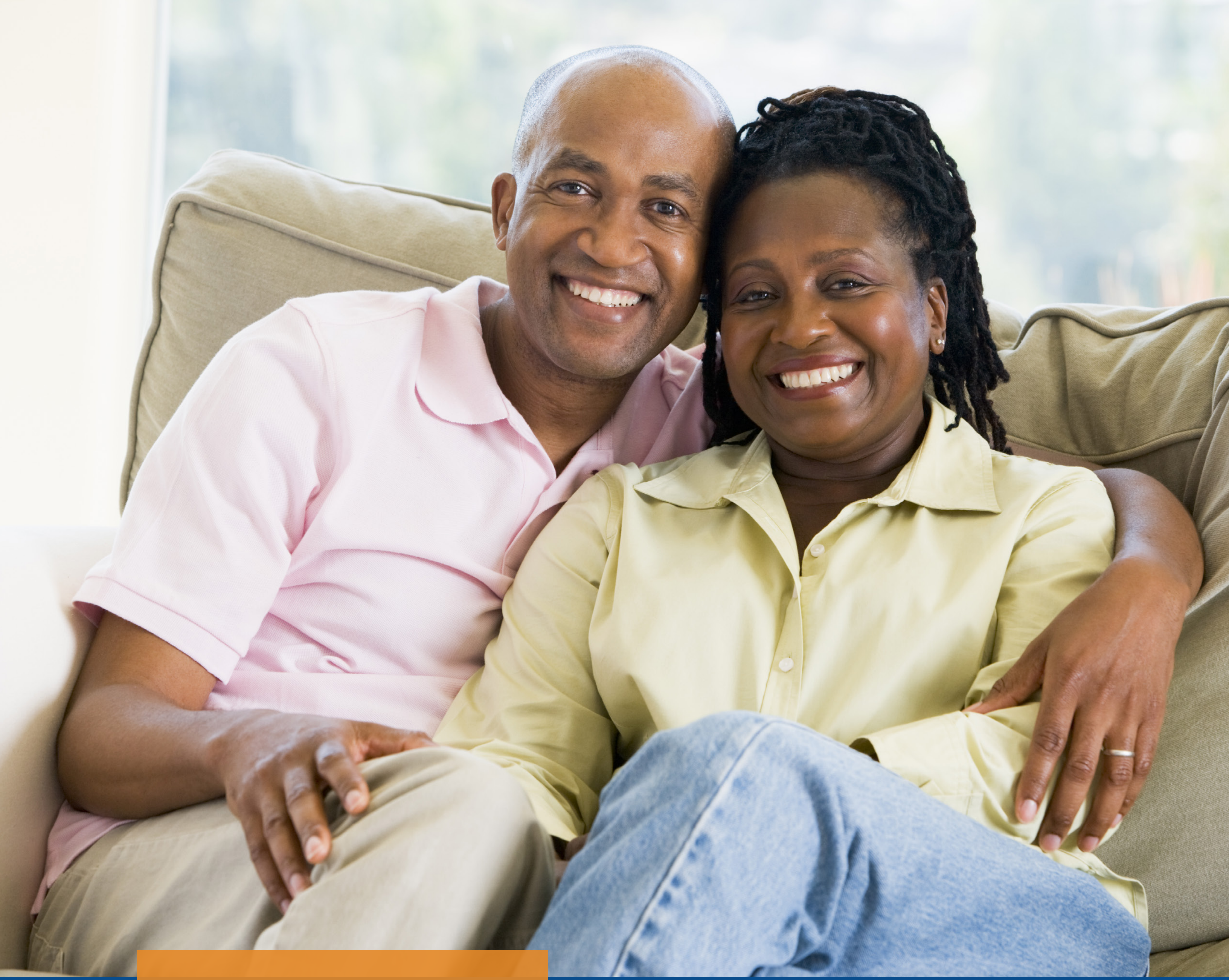


WHY HEALTH NEEDS TO BE PART OF RETIREMENT PLANNING

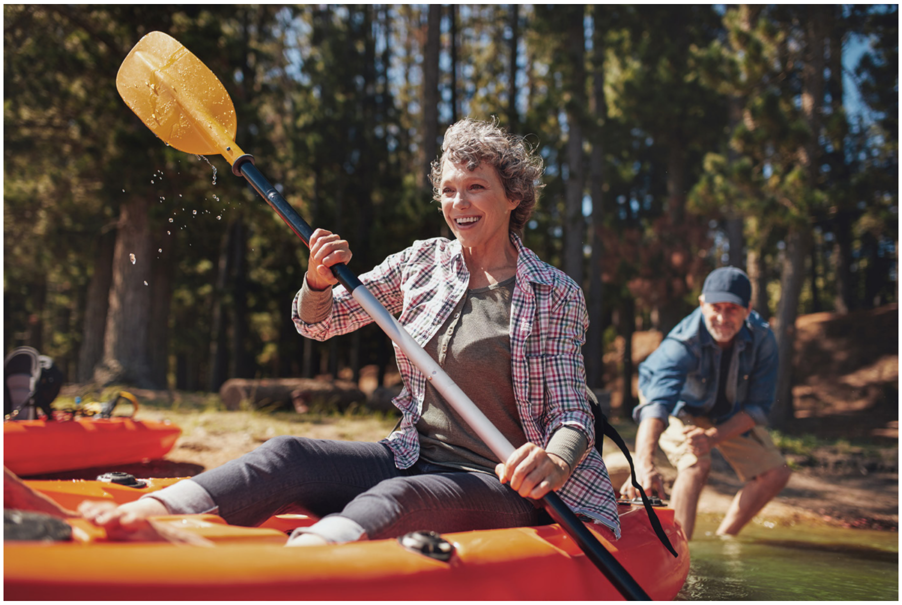
JULY, 2019

There is growing recognition in the financial services industry that healthcare will be a significant retirement expense, and that related costs need to be incorporated into all retirement plans.

HealthView Services has spent more than a decade analyzing this issue and providing pioneering financial-service firms with retirement healthcare-projection tools that help clients plan for future expenses. Still, there remains a significant gap between awareness and action: while 61% of American workers are “significantly concerned” about their inability to cover future healthcare expenses, only 26% have calculated the monthly income they will require to address their needs in retirement.[1]

To motivate more Americans to incorporate healthcare expenses into their retirement plans, financial professionals play a key role in helping clients understand future healthcare expenses and developing strategies to plan for, manage and even reduce their impact.

Drawing upon HealthView Services’ and HealthyCapital’s database of 530 million medical cases, longevity statistics, and government data, this paper highlights seven specific reasons why healthcare needs to be incorporated into retirement planning. All projections are based on national averages, unless otherwise stated, and assume that Medicare Part A (hospitalization) has been paid through Medicare tax deductions while a person is employed.



1 https://www.thestreet.com/story/14120603/1/the-sorry-state-of-your-finances-is-costing-you-sleep.html

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Reason #1: Driven by healthcare inflation, costs will be greater at the end of retirement than the beginning (and significantly higher for younger Americans)

Total lifetime health care costs for a healthy 65-year-old couple* retiring this year are projected to be $387,644 in today's dollars ($572,960 in future dollars). This includes premiums for Medicare Parts B and D, supplemental insurance (Mediagap), and dental insurance, as well as out-of-pocket costs related to hospitalization, doctor visits, tests, prescriptions drugs, hearing services, hearing aids, vision, and dental.

*Average projected life expectancy of 87 for the male, 89 for the female

Table A: Total Projected Annual Healthcare Costs for an Average Healthy 65-Year-Old Couple Retiring This Year*

Year	Ages	Cost
2019	65	$12,286
2024	70	$16,155
2029	75	$21,164
2034	80	$27,060
2039	85	$34,268

*Future Value

In the first year of retirement, the couple's total annual premium and out-of-pocket expenses will be $12,286. In twenty years, at age 85, they will need $34,268 to cover these costs. (This excludes long-term care.)

Due to the compounding effect of healthcare inflation (projected to be 4.41%*), today's 40 and 50-year-old couples (retiring at age 65) can expect their lifetime total healthcare costs to rise to $455,866 and $405,241, respectively (present value).

New retirees, who generally paid approximately 25% of their medical premiums during their working years, are often surprised by the cost of healthcare in retirement, when they are responsible for 100% of their premiums and expenses.

Table B: Average Healthcare Premium Cost Comparison of 64-Year-Old Couple (Pre-Retirement) to 65-Year-Old Couple (In-Retirement)

Age	Coverage	Financial Responsibility	Annual Cost to Couple
64	Employer-Sponsored HMO Plan	25%	$3,742
65	Retirement Health Premiums**	100%	$7,145

Reason #2: Healthier, longer lives will mean higher healthcare costs in retirement

As with all aspects of retirement planning, expected longevity (using actuarial data and based on health and gender) provides the optimal framework for projecting costs. Although annual expenses will be greater for retirees in poor health, lifetime expenses will generally be higher for healthier retirees because they will, on average, live longer.

Table C shows that a 55-year-old woman with type 2 diabetes (projected to live to age 80) will pay an average of $3,470 more per year in medical-related expenses than if she were healthy. However, due to a shorter expected lifespan, her lifetime healthcare expenses will be considerably lower than her healthy counterpart.

*Rate includes Medigap age rating and increased utilization of out-of-pocket health care costs with age.
**Medicare Parts B and D, and supplemental insurance Plan G.

Table C: Lifetime Healthcare Cost Comparison, 55-Year-Old Woman (Net Present Value)

55 Year-Old Woman's Health	Life Expectancy	Average Annual Costs (Age 65-80)	Lifetime Retirement Health Care Costs
Type 2 Diabetic	80	$16,635	$266,163
Healthy	89	$13,165	$424,875
Difference	**9 years**	**-$3,470**	**$158,711**

Living past projected life expectancies will increase lifetime costs. Table D shows that if a 45-year-old couple were to live just two years longer, they must plan to spend an additional $172,273 (more than a 14% increase) in healthcare expenses (future value).

Table D: Lifetime Healthcare Costs, 45-Year-Old Couple, Based on Longevity Future Value)

Husband/Wife's Life Expectancy	Total Retirement Health Care Costs
87/90	$1,217,121
89/92	$1,389,394
Difference	**$172,273**

The impact of health condition on longevity and healthcare expenses are covered in detail in HealthyCapital's 2018 white paper, "Building Wealth Through Wellness."

Reason #3: Health-related behavior modifications can significantly impact longevity and healthcare costs

RAND Corporation data shows that 50% of the adult population in the United States suffers from a chronic condition, including high blood pressure, type 2 diabetes, obesity, and high cholesterol.[2] Of this population, many fail to adhere to their physician's treatment protocols – in fact, as many as half do not even take their medications as prescribed.[3]

Health conditions – and whether they are properly managed – directly correlate to expected longevity and retirement healthcare expenses.

For a 45-year-old man with high blood pressure, following doctors' orders and making small health-related changes – such as reducing salt intake – can lower annual healthcare costs and extend life expectancy.

Table E illustrates how changing health-related behaviors and investing the savings offers one path to reducing the future burden of retirement healthcare costs.

By taking medication as prescribed and maintaining a healthy level of physical activity, this individual could save an average of more than $3,600 in annual pre-retirement out-of-pocket healthcare costs. He can also expect to increase his actuarial longevity by more than two years.

Investing his savings at a 6% rate of return would generate $111,622 at retirement. To put this into perspective, the average 401(k) balance for a 65-year-old in 2018 was $209,984.[4]

Table E: Difference in Longevity, Costs and Savings (If Health Savings are Invested) Based on Health Management, 45-Year-Old Male With High Blood Pressure

Poorly Managed Life Expectancy	Well Managed Life Expectancy	Average Annual Cost Savings, Age 45-65	Savings Balance at Retirement (6% Return)
84.5	86.8 (+2.3 years)	$3,651	$111,622

*Excludes Part B costs (paid via Social Security benefit deduction).

2 https://www.rand.org/blog/rand-review/2017/07/chronic-conditions-in-america-price-and-prevalence.html
3 https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3068890/
4 https://money.usnews.com/money/retirement/401ks/articles/2018-07-23/are-your-retirement-savings-ahead-of-the-curve

Reason #4: Health-related investment choices can make costs more manageable

Healthcare costs, which rise as we age, will be one of the highest expenses in retirement. To ensure that sufficient funds will be available, product choice, portfolio mix, and decumulation strategies are critical for long-term financial stability.

Selecting financial products that help reduce Medicare surcharges in retirement and taking advantage of strategies, including health savings accounts (for those in high deductible plans), creates opportunities to maximize retirement income. Some of these products are Roth 401(k)/Roth IRA, certain life insurance and annuities products (including non-qualified annuities), and health savings accounts (HSA).

HSAs offer triple tax benefits: contributions are pre-tax, gains aren't taxed;. and as long as they are used to pay health-related expenses (including Medicare Premiums), withdrawals do not count toward taxable income.

Reason #5: Modest investments while employed can reduce the burden of healthcare costs in retirement

As with most aspects of retirement saving, modest ongoing contributions into investment products, 401(k) plans, or HSAs add up. In general, the longer investors have to benefit from compounding returns, the better.

Henry, a 50-year-old male, who based on a review of his retirement savings, does not have the funds to address his healthcare expenses (based on a review of his retirement savings), would need to save $7,129 per year until age 65 to accumulate $175,897 to cover Medicare B and D, and supplemental insurance Plan G premiums.* This can be accomplished by contributing an additional $183 bi-weekly into his company's 401(k) plan. To cover all retirement medical expenses (dental, vision, hearing), he can bump up his contributions to $254 per paycheck, or put away $9,908 each year.**

*Medicare Part D premiums and supplemental insurance Plan G (assumes Part B premiums are deducted from Social Security benefits)
**Assumes a 6% annual return and 50% company match on contributions

Reason #6: Meeting IRR goals will cover some, but not all, future healthcare costs

Those on track to meet an income replacement ratio (IRR) of 80% are already on their way to addressing a portion of future healthcare costs. Current industry-standard IRRs assume that healthcare outlays during employment and retirement are equivalent. As stated earlier, workers pay approximately one quarter of their healthcare premiums, but retirees are responsible for 100% of total costs. As a result, individuals meeting their IRR targets may be surprised that in retirement healthcare costs will take up more of their budget than expected, reducing their planned disposable income.

If Henry (from the previous section) is meeting his IRR goals, closing this healthcare funding gap can be accomplished by making additional 401(k) contributions of as little as $120 per bi-weekly pay period. (This assumes a 50% employer match on all contributions).

Reason #7: One-time investments can help address retirement healthcare costs

For some, making additional weekly or bi-weekly contributions may be the optimal solution to address future healthcare needs. Others may prefer a one-time lump-sum investment to fund future expenses that enables them to benefit from compounding returns.

For Henry, assuming a 6% rate of return and retirement at 65, an investment of $111,816 today (at age 50) would be sufficient to cover retirement healthcare expenses including Part D, dental, and supplemental insurance, as well as out-of-pocket costs relating to hospitalization, doctor visits, tests, prescriptions drugs, hearing services, hearing aids, vision, and dental. To cover only health premiums, the investment would be $80,850. (These numbers do not include Medicare Part B, which will be deducted directly from Social Security benefits.)

Conclusion

Recognizing that medical costs are not a discretionary expense, Americans are focused on ensuring their healthcare needs will be addressed in retirement.

In a 2017 American Institute of CPAs telephone survey of 1,018 non-retirees, 71% cited paying for healthcare as their number-one retirement concern.[5] Perhaps then it should be no surprise that when individuals are provided customized, projected healthcare costs, they increase retirement savings by as much as 25%.[6]

That healthcare will be one of the most significant costs in retirement may no longer be a surprise. What is often misunderstood is that with effective planning, healthcare can be taken off-the-table as an issue. While Americans want to ensure that medical expenses are addressed in retirement, too few are taking the necessary steps to achieve this objective. By highlighting opportunities to plan for and manage retirement healthcare expenses, advisors play a key role in helping clients take action. Simply sharing healthcare cost projections in the context of the retirement planning process is a powerful driver of increased savings and offers an opportunity to discuss strategies to manage – and even reduce – these costs.

5 https://www.journalofaccountancy.com/news/2017/apr/americans-fear-they-wont-reach-retirement-goals-201716417.html
6 HealthView Services client data.

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About HealthView Services

Founded in 2008 by a team of experienced financial professionals, healthcare industry executives, and expert physicians, HealthView Services is the nation's leading provider of healthcare cost-projection software to financial services firms and advisors. The firm's suite of tools is designed to help current and future retirees develop financial plans that incorporate retirement healthcare costs.

The company's signature service, HealthWealthLink, is an integrated retirement-planning platform that draws upon cost data from more than 530 million medical claims, economic and government data to create personalized estimates of retirement healthcare costs. The system also furnishes advisors with the necessary tools and information to implement financial strategies that can help clients offset this expense and achieve retirement goals.

With its unique expertise and data, HealthView is a respected thought leader on retirement healthcare, Social Security, and long-term care. The company has also released white papers on topics ranging from healthcare cost-management strategies to income replacement ratios to challenges that women face in retirement.

In 2018, HealthView and Mercy Health founded HealthyCapital, whose innovative applications incentivize individuals to improve health, leading to increased longevity and lower annual medical expenses.