PLANNING FOR RETIREMENT: THE HEALTHCARE WILD CARD

Work with your financial advisor to determine how these expenses fit into your overall retirement picture.

KEY TAKEAWAYS

Even with supplemental insurance and Medicare, out-of-pocket healthcare costs in retirement can be expensive, with the potential to derail even the best-laid plans.

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Take time to learn about Medicare. Being informed is the best way to avoid mistakes that cost money. Rely on your advisor to help clarify issues or to point you toward resources that will help.

▼

Your advisor can help you estimate what your healthcare needs and costs will be in retirement. Together, you can identify unique healthcare issues and adjust your plan accordingly.

RAYMOND JAMES®

THE HEALTHCARE WILD CARD

THE A, B, D AND C OF MEDICARE

Part A
HOSPITAL INSURANCE

Part B
MEDICAL INSURANCE

Medicare Part B monthly premiums range from $109 to $428.60, based on yearly income. MOST will pay $109 per month unless income exceeds $170,000, for taxpayers married and filing jointly.

Part D
PRESCRIPTION DRUG COVERAGE

Part C
MEDICARE ADVANTAGE PLANS

MOST **Medicare Part C** plans include prescription drug coverage (**Part D**) and SOME cover vision, hearing, dental and wellness programs.

WHEN TO ENROLL?

- **If you're already collecting SOCIAL SECURITY BENEFITS**
  You'll be automatically enrolled in Parts A and B at 65.
- **If you're not collecting SOCIAL SECURITY BENEFITS**
  You become eligible for Medicare Part A the first day of the month you turn 65 years old. You should apply for coverage three months before your 65th birthday.

MEDIGAP

OFFERED BY PRIVATE INSURANCE COMPANIES

- Helps to cover gaps in original Medicare coverage
- Minimizes out-of-pocket expenses
- Helps with things like deductibles, co-pays and co-insurance

MEDICARE ONLY PAYS ABOUT **60%** OF MEDICAL COSTS

You'll still have co-pays, premiums and deductibles.

MEDICARE **DOESN'T COVER**

dental, vision, hearing or long-term care costs.

CONSIDER THIS

70%

Studies suggest that 70% of Americans over 65 will need some type of long-term care at some point.[1]

$89,870

The average cost of nursing home care was $89,870 in 2016.[2]

<2%

Medicare pays less than 2% of all long-term care cases for a maximum of only 100 days.[3]

Sources:
[1] longtermcare.gov
[2] Genworth Cost of Care Survey, 2016
[3] The Health Insurance Association of America

THE EARLIER THE BETTER

It's never too early to start thinking and planning for retirement, especially when it comes to major expenses like healthcare. For many, retirement is not just the end of a long, fruitful career, but the start of the next stage of life. You may have a clear vision of your ideal retirement, but that dream could fade if unexpected healthcare costs start to eat away at your hard-earned retirement savings. The fact is, even with Medicare, healthcare coverage in retirement can carry a high price. There are still premiums, co-payments, deductibles and other out-of-pocket expenses that must be accounted for.

TAKE CHARGE

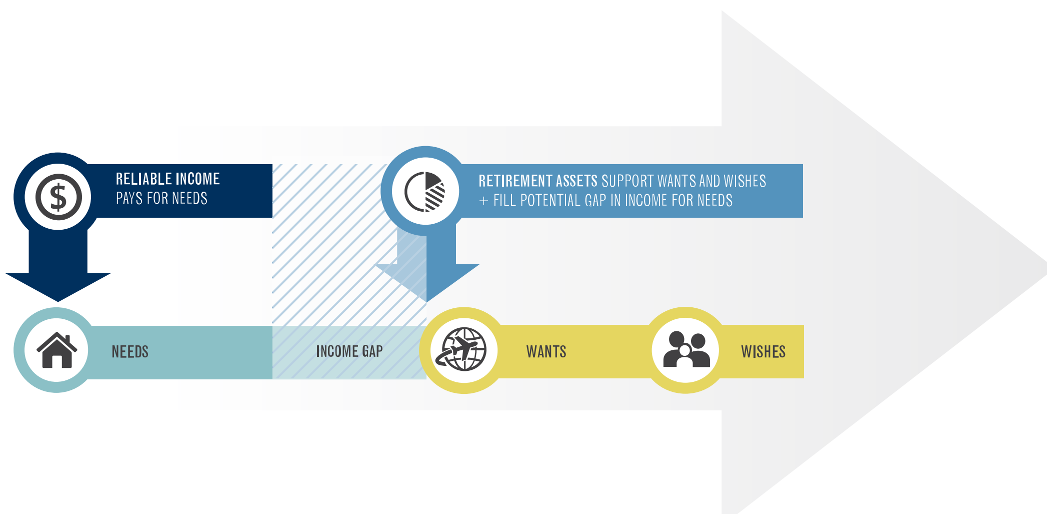
Quantifying potential costs, evaluating your options and developing a comprehensive plan can help address various scenarios that may keep you up at night. You may wonder, for example, how you'll pay for healthcare if you live 30, 40 or even 50 years in retirement? Americans are living longer and longer these days, and yes, increased longevity is wonderful, but with it comes a greater risk of experiencing changes in health and more pressure on assets to provide income over the long run.

Planning for these essential expenses could mean the difference between a secure retirement and one fraught with worry. That's why it's so important to incorporate those costs – and how to pay for them – into your overall retirement income plan as soon as possible.

DEFINING OUT-OF-POCKET EXPENSES

Premiums are what you pay for health insurance coverage for a specific period of time. **Deductibles** are the amount you pay before your insurance coverage kicks in. After you meet the deductible, you may be responsible for **co-insurance**, a percentage of the cost of care. In addition to co-insurance, you'll pay **co-payments**, a flat fee for services or drugs.

YOUR RETIREMENT INCOME PICTURE



Within your retirement income plan, healthcare coverage should be considered an essential need, paid for by your reliable income, such as Social Security or pension payouts. If your reliable income isn't enough to cover basic needs, you may have to tap your retirement assets.

THE TRUTH ABOUT MEDICARE

The majority of retired Americans expect Medicare to cover their healthcare costs, but in reality, Medicare only pays about 60% of current retirees' medical costs, according to the Employee Benefit Research Institute. For instance, you'll still have co-pays, premiums and deductibles, and Medicare doesn't cover hearing, dental, vision or long-term care costs. Some retirees are lucky enough to receive a retiree healthcare benefit from a former employer, but that has become increasingly rare. So, many turn to supplemental insurance to cover the remaining 40%.

MAKING SENSE OF MEDICARE

There are a number of different pieces that make up Medicare, all of which cover different portions of your healthcare and come with their own set of rules. Medicare consists of three main parts: hospital insurance (Part A), medical insurance (Part B) and prescription drug coverage (Part D). Additionally, there are also Medicare Advantage Plans (Part C) and Medicare Supplemental Insurance Plans (Medigap). The following is a brief overview of each, what they cover and associated costs.

PART A – Hospital Insurance

Medicare Part A provides hospital insurance and helps pay for a stay in a hospital or skilled nursing facility, home healthcare, hospice care and medicines administered to inpatients. Most people don't pay a premium because they paid Medicare taxes while working, however you will have to pay deductibles and co-payments based on length of stay in the hospital.

For example, here's what you'd pay in 2017 for an in-hospital stay:
Days 1-60: $1,316 deductible
Days 61-90: $329 per day
Days 90+: All costs or lifetime reserve days*

*After the 90th day, you can choose to pay $658 per day for as many as 60 non-renewable lifetime reserve days.

You become eligible for Medicare Part A the first day of the month you turn 65 years old. You should apply for coverage three months before your 65th birthday, if you're not collecting Social Security. If you are already collecting Social Security benefits, you'll be automatically enrolled in Parts A and B at 65.

PART B – Medical Insurance

Medicare Part B provides medical insurance and helps pay for physician and outpatient services such as rehab therapy, lab tests, medical equipment and some home health and preventive services. It also covers doctors' services in the hospital and most medicines administered in a doctor's office.

A monthly premium for Medicare Part B ranging from $109 to $428.60 applies based on yearly income. Most will pay $109 per month unless income exceeds $170,000 for taxpayers married and filing jointly.

Deductibles and co-insurance are also charged for Medicare Part B. For 2017, participants will pay a $183 deductible and 20% co-insurance on the Medicare-approved amount for home and medical services after the deductible.

AVERAGE
MONTHLY PREMIUM
$109 - $428.60
based on yearly income

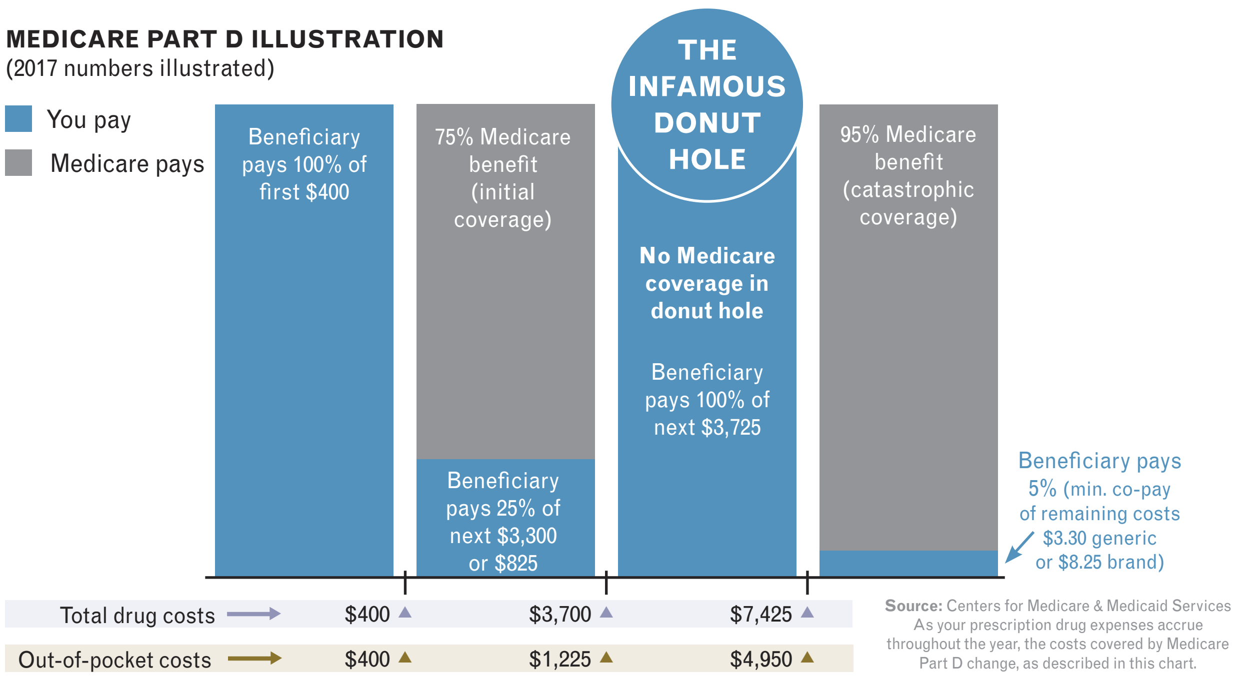
A B **D** C

PART D – Prescription Drug Coverage

Medicare Part D provides prescription drug coverage and helps pay for prescription drugs that you use at home, plus insulin supplies and some vaccines. To get this coverage, you must enroll in a private Part D drug plan or in a Medicare Advantage plan that includes Part D coverage (see page 7). Enrollment in Part D is voluntary, but you must be enrolled in Part A or B to be eligible.

A monthly premium for Medicare Part D applies based on your income and plan. Costs vary depending on the plan, but most beneficiaries who enroll as soon as possible can expect to pay about $30 a month and a maximum annual deductible of $400 for 2017. Other costs include co-pays for medicine and an expensive "Donut Hole" in coverage (see below).

MEDICARE PART D ILLUSTRATION
(2017 numbers illustrated)



Source: Centers for Medicare & Medicaid Services
As your prescription drug expenses accrue throughout the year, the costs covered by Medicare Part D change, as described in this chart.

CLOSING THE GAP

The Affordable Care Act helps reduce your total out-of-pocket expenses when you reach the Donut Hole. For example, if you reach the donut hole, you will be given a 55% discount on covered brand-name medications and a 7% discount on generic medications and will pay a maximum of 65% on generic medications. In addition, Medicare will reduce the coverage gap each year until it is eliminated completely in 2020.

A B D **C**

PART C – Medicare Advantage Plans

Medicare Advantage plans, or Medicare Part C, are provided by private HMOs/PPOs and cover all Part A and B services, except hospice. Most Medicare Part C plans include prescription drug coverage (Part D) and some cover vision, hearing, dental and wellness programs. Some Medicare Advantage plans offer additional items or services, such as extra hospital days or coverage when traveling overseas.

To qualify for a Medicare Advantage plan, you must already be enrolled in Parts A and B. Premiums and co-pays still apply, in addition to your Plan B premiums. Costs vary by plan, and there are increased costs for going out of network.

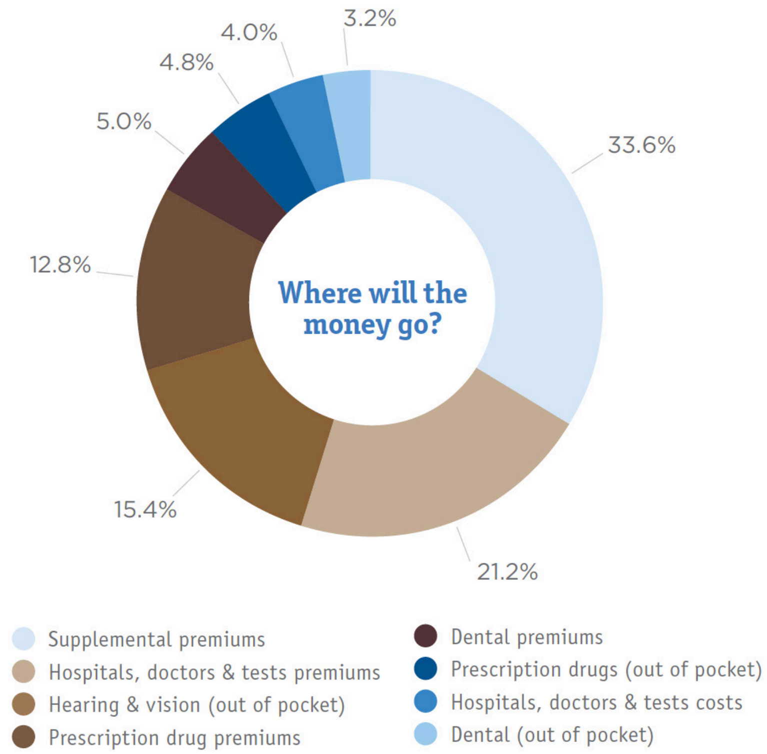
MEDIGAP – Supplemental Insurance Plans

Optional Medigap or Medicare Supplemental Insurance plans are offered by private insurance companies to help cover gaps in original Medicare coverage and minimize out-of-pocket expenses for things like deductibles, co-pays and co-insurance. They generally provide the same benefits in all states; however, new Medigap policies don't offer prescription drug coverage. Costs for these plans, including premiums and co-pays, vary by provider, so shop around.

Generally, you need to be enrolled in Parts A and B before purchasing a Medigap policy. You have a six-month window after enrolling in Part B when you are guaranteed the right to buy a Medigap policy. During this period, you can't be denied coverage or charged more for existing health conditions. However, if you do not enroll within those six months, you may not be able to enroll later or you could be charged more. Medigap plans are guaranteed renewable; as long as you continue to pay the premiums, you can't be dropped regardless of any new health conditions. These plans provide varying levels of coverage.

You won't need – nor can you use – a Medigap policy in conjunction with a Medicare Advantage plan. If you are already enrolled in a Medicare Advantage plan (Part C), it is illegal for anyone to sell you a Medigap policy unless you withdraw from your Medicare Advantage plan.

Here's a look at what the average American retiring today will spend (in future dollars) over the course of his or her retirement.



Source: 2015 Retirement Health Care Costs Data Report, HealthView Services; Assumes average life expectancy of 88

WORKING PAST 65

Medicare usually kicks in at age 65, but if you work longer you could extend your eligibility for employer-subsidized health insurance, thus helping to further minimize your out-of-pocket expenses. Plus, the additional income could be saved toward future costs not covered by Medicare.

EMPLOYER BENEFITS

Start by learning how your employee retirement benefits work, how much they will cost and how they interact with Medicare. Some employers provide coverage only until you turn 65, while others have programs that kick in after you enroll in Medicare.

If you're on the same plan as your spouse, try to get an idea of how spousal benefits will work when one or both of you are retired. For example, what happens if the employee dies? Will the surviving spouse still be entitled to benefits? The answers to these questions will allow you to make informed decisions for your personal strategy.

Often Medicare benefits are secondary to employer plan benefits, so you may wish to enroll in Part A to pick up costs not covered by your plan but delay enrolling in Part B to save money. Late enrollment penalties usually don't apply if you sign up during a special enrollment period.

ENROLLING IN MEDICARE

Medicare generally kicks in at age 65, unless you are disabled, in which case it may begin earlier. Once you become eligible, if you're already receiving Social Security benefits, you don't need to apply; you will automatically be enrolled in Medicare Parts A and B and will be mailed your Medicare card. If you decide not to keep Part B, you will need to let Medicare know you don't want it by the date printed on the front of your Medicare card.

If you **are not** already receiving Social Security benefits, you won't get an official notice to enroll in Medicare, so you'll need to be proactive and contact the Social Security Administration during your initial enrollment period.

INITIAL ENROLLMENT PERIOD

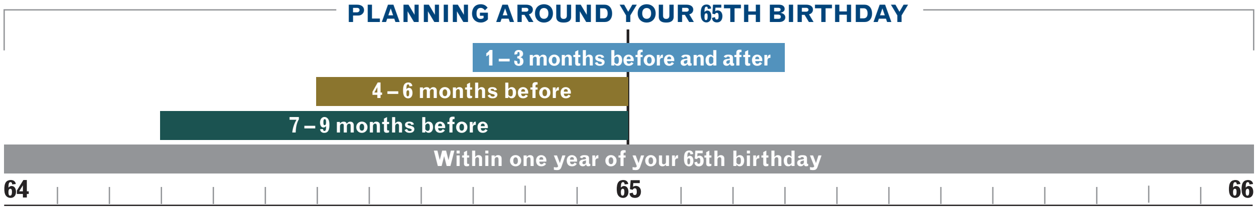
Your initial enrollment period is the seven-month period beginning three months before the month you turn 65 and ending three months after the month you turn 65. The date your coverage begins depends on your birthday, but it is best to enroll prior to your 65th birthday to avoid delays in coverage.

With Part B, the month you enroll during the initial enrollment period will affect when your coverage starts. For example, if you turn 65 and wait until your birth month or later to apply, you'll have a one- to three-month gap in coverage. Part A, on the other hand, can be retroactive for up to six months. See the chart below for an example of eligibility and when coverage becomes effective.

Example: Sam's 65th birthday is in May. His initial enrollment period extends from February to August.

If he enrolls during ...	his Part B coverage will begin ...
February to April	May 1
May	June 1
June	August 1
July	October 1
August	November 1

PLANNING AROUND YOUR 65TH BIRTHDAY



Within one year of your 65th birthday	7 – 9 months before your 65th birthday	4 – 6 months before your 65th birthday	1 – 3 months before and after your 65th birthday
Get a physical exam. Review your records and medical history. Discuss preventative measures with your healthcare team.	Check eligibility for Medicare benefits by calling 800.772.1213. Review current and post-retirement benefits to determine what options you have. Learn what Medicare covers.	Review Medicare Advantage and Medigap options. Ask your doctors if they accept Medicare.	**This is the initial enrollment period.** Enroll in Medicare Parts A and B, either online or by phone. If you're already receiving Social Security benefits, you should be enrolled automatically. Determine if you'd like to enroll in a Medicare Advantage or Medigap plan. Consider enrolling in Part D for prescription drug coverage if you're not covered elsewhere.

GENERAL ENROLLMENT PERIOD (PARTS A AND B)

If you did not sign up for Part A and/or Part B when you were first eligible, you can enroll between January 1 and March 31 of each year. During this time you can sign up for Medicare Part A and/or B and your coverage will begin on July 1 of the year you enroll. **Higher premiums may apply due to late enrollment.**

ENROLL BETWEEN

January 1 | **March 31**

COVERAGE WILL BEGIN ON JULY 1

For example, you'll incur a permanent 10% premium increase for each year that you could have been enrolled in Part B, but were not. Depending on your income level, that could mean you'll pay an additional $10 to $43 in premiums each month for 2017.

ANNUAL MEDICARE REVIEW

Each year after your initial enrollment, take the time to review your coverage. Even if you're happy with what you have, benefits and premiums may have changed over the year.

- Review your options to see if another choice suits your needs better. Medicare.gov offers a Plan Finder function to help you compare different plans.
- Make any changes during the annual Medicare open enrollment windows.
- Visit your primary care physician to review your medications.

Open enrollment occurs each year from October 15 to December 7. Make it a goal to review your coverage and make any necessary changes before Thanksgiving so you won't be overwhelmed during the holidays.

ENROLLING FOR MEDICARE ADVANTAGE PLANS (PART C) AND PRESCRIPTION DRUG COVERAGE (PART D)

Enrollment in a Medicare Advantage plan (Part C) and Medicare prescription drug coverage (Part D) can take place during your initial enrollment period, certain open enrollment periods (see below) or during certain special enrollment periods.

OPEN ENROLLMENT PERIOD (PARTS C AND D)

Every year you have the option to make changes to your Medicare Advantage plan (Part C) and Medicare prescription drug coverage (Part D) for the following year during an open enrollment period that runs from October 15 to December 7.

From January 1 to February 14 you can still switch from a Medicare Advantage plan back to original Medicare and join a Medicare prescription drug plan (Part D).

You may also be eligible to make changes to your coverage due to certain events such as moving or loss of coverage.

SPECIAL ENROLLMENT PERIODS

If you didn't enroll in Part A and/or Part B when you were first eligible, a special enrollment period may be available to help avoid late enrollment penalties. You can sign up for Part A and/or B under a special enrollment period any time you or your spouse are still working and covered by a group health plan through your employer or union. The special enrollment period also covers the eight-month span that begins the month after employment ends or the group health plan coverage ends, whichever happens first.

If you have COBRA coverage or are covered by a retiree health plan, you are not eligible for a special enrollment period when that coverage ends.

PLANNING FOR HEALTHCARE EXPENSES

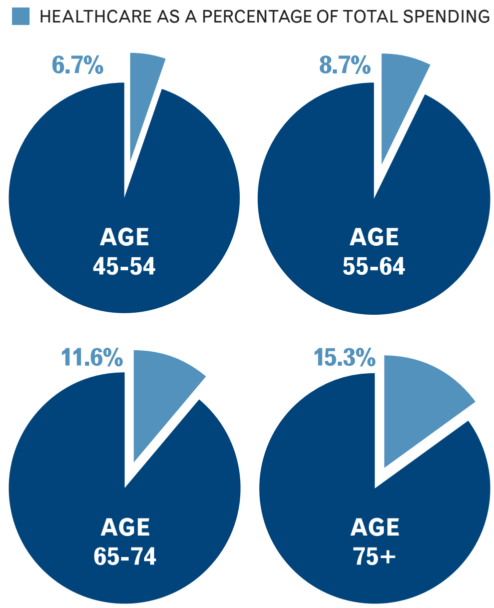
A Center for Retirement Research study estimated out-of-pocket healthcare expenses for a healthy 65-year-old couple to be $260,000 to $570,000 for their entire retirement. While the figures are daunting, they account for a wide range of possibilities over the course of several decades. Income from investments and Social Security can go toward paying ongoing medical costs, such as Medicare premiums. As you plan for retirement, take these costs – including Medicare premiums and co-pays – into account so you'll be prepared for the unexpected.

CREATING A COVERAGE PLAN

Now that you realize how crucial budgeting for healthcare costs is to retirement planning, the next step is laying the groundwork for how you'll save toward those necessary expenses. One way is to take a broad approach by allocating a lump sum of money to cover the average lifetime healthcare costs; however very few are in a position to allocate $300,000 or more to a cash reserve to fund future healthcare needs.

A more practical approach, on the other hand, is to produce an annual expense estimate that's specific to your unique health needs and history. For example, if you are healthier, your healthcare costs may be lower than for most of your peers. You and your financial advisor may start with the average cost for a healthy person your age and gender and adjust your estimated expenses up or down from there, depending on how conservative you wish to be. The Center for Retirement Research estimates that married couples age 65 and over spent $7,600 a year on average for Medicare premiums and co-pays. That figure includes insurance premiums for Medicare Part B coverage and Part D prescription benefits, plus out-of-pocket expenses for co-pays, deductibles and miscellaneous home care costs. However, that average doesn't include any additional costs for treatment of chronic conditions such as heart disease, arthritis or diabetes; nor does it account for the cost of a nursing home or long-term care facility, which can be a major expense. Keep in mind, the longer you expect to live, the higher your total costs could be.

HEALTHCARE COSTS ARE AN INCREASING PIECE OF THE PIE

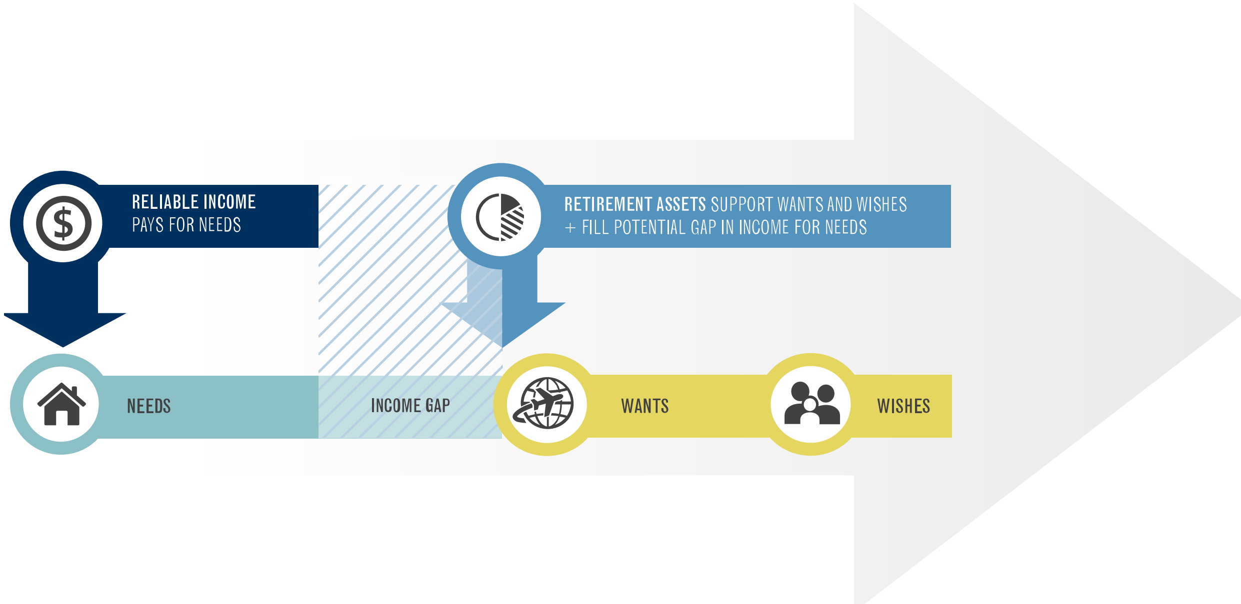


Source: Bureau of Labor Statistics 2016 consumer expenditure survey

AN OUNCE OF PREVENTION

While understanding these costs can help you save for the future, now may also be the time to take care of your physical self with regular exercise and a sensible diet. After all, an ounce of prevention is worth a pound of cure. Consult with your doctor to identify next steps to becoming a healthier you.

Your financial advisor can help you estimate your essential expenses, including healthcare costs, to determine if your expected retirement income will be enough to cover them.



To be conservative, you might want to use a higher figure as you establish your retirement income plan. If you have a family history of chronic health conditions, such as arthritis, diabetes or heart issues, you may want to plan to save even more. Chronic health problems require regular treatment and medication, all of which costs money and can quickly deplete your retirement savings if a cash reserve isn't available to defray the costs. Unfortunately, chronic conditions are more likely to develop the longer you live. Statistics published by Johns Hopkins University show that the likelihood of developing one or more chronic illnesses increases with age. Among people 80 years of age or older, 92% have at least one chronic condition, while 73% have two or more.

Once you and your advisor arrive at your annual expense estimate, you'll determine if your steady flow of reliable income will cover those essential expenses. If there is a gap in what your reliable income will cover, you will need to then tap into your retirement assets to fill that gap. Additionally, you may consider setting aside smaller amounts into a reserve fund for medical emergencies.

LONG-TERM CARE

Another important factor to consider when planning for healthcare in retirement is the potential need for long-term care. Studies suggest one-third of people who turned 65 in 2010 will need at least three months of nursing home care, 24% for more than a year, and 9% for more than five years. But Medicare does not cover long-term care, and nursing home care averaged $89,870 a year in 2016, according to the Genworth Cost of Care Survey. A home health aide is expensive as well; in fact, hiring one can cost more than $320 a day.

If you're concerned about the rising cost of long-term care and the impact it could have on your savings, you should consider long-term care insurance as a form of risk management. Long-term care insurance can help you manage this anticipated expense by covering a range of nursing, social and rehabilitative services for people who need ongoing assistance due to a chronic illness or disability. While you can't know for sure if you'll need long-term care or for how long, you can plan for the unexpected. It just makes sense to work together with your financial advisor to mitigate some of the risks through adequate long-term care insurance to avoid this potentially financially – and emotionally – devastating scenario.

Of course, deciding if long-term care insurance is right for you depends on your personal financial circumstances. Some people choose a policy to help:

- Protect assets
- Add options for quality care
- Relieve family and friends from the stress of providing care
- Preserve their independence, dignity and financial freedom

CARING FOR FAMILY

Many investors are also faced with the challenge of caring for parents or siblings who have significant healthcare expenses and limited assets, but still have too many assets to qualify for Medicaid. While everyone wants to do what's best for their family and preserve their quality of life as much as possible, the expenses associated with doing so can be significant. Incorporating these concerns into your planning can help to get a better picture of your expenses in retirement.

ADDITIONAL RESOURCES

For more information, review these resources:

AARP.ORG

BENEFITSCHECKUP.ORG

ELDERCARE.GOV

MEDICARE.GOV

SOCIALSECURITY.GOV

WORK WITH YOUR FINANCIAL ADVISOR

Now that we have explored the impact of healthcare costs on retirement planning, it should be clear that planning for this retirement wild card is crucial. And each individual's situation will be different.

Your financial advisor can help you work through the necessary details, such as:

- Reviewing your options for covering healthcare costs in retirement, including Medicare Parts A, B and D, Medicare Advantage plans (Part C), Medigap insurance and long-term care insurance.
- Estimating your healthcare costs in retirement, including Medicare premiums, co-pays and long-term care insurance expenses.
- Assessing the impact of your estimated healthcare expenses on your retirement income, and determining how those costs will be met.
- Updating your retirement income plan accordingly.

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