



Incorporating health care costs into retirement planning



NATIONWIDE RETIREMENT INSTITUTE®



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George graduated from Miami University, summa cum laude, with a dual Bachelor of Arts in International Studies and Diplomacy & Foreign Affairs and went on to earn his Juris Doctor from the University of Minnesota, cum laude. George is admitted to the bar in Illinois and Ohio.

Today's financial professionals may very well spend the bulk of their time working with members of the baby boomer generation. This makes a lot of sense considering the widely reported statistic over the past few years that every day more than 10,000 boomers hit the traditional retirement age of 65 and will continue to do so for the remainder of this decade.¹ Yet baby boomers are not the only demographic cohort that matters. Another highly analyzed group in American society today is the millennial generation, many of whom are the children of baby boomers. And although it may be hard to believe, older millennials are fast approaching 40. This means that they are at an age where they are starting to seek the help of financial professionals in higher numbers. Although the current financial concerns of members of these very different generational cohorts may generally be very different, there is one concern that they share: paying for the cost of current and future health care needs. And let's not forget the group in between: Generation X. Many of them are now caring for aging parents and could benefit from guidance in planning for their own elder years.

Unfortunately, a disturbingly large majority of individuals, regardless of their generational group, have

no plans to talk about this financial concern with a professional. In fact, a recent Nationwide Health Care Consumer Survey reveals that among Americans, only 39% of millennials, 42% of Gen Xers and 23% of baby boomers plan to talk to a financial professional about planning for health care costs.

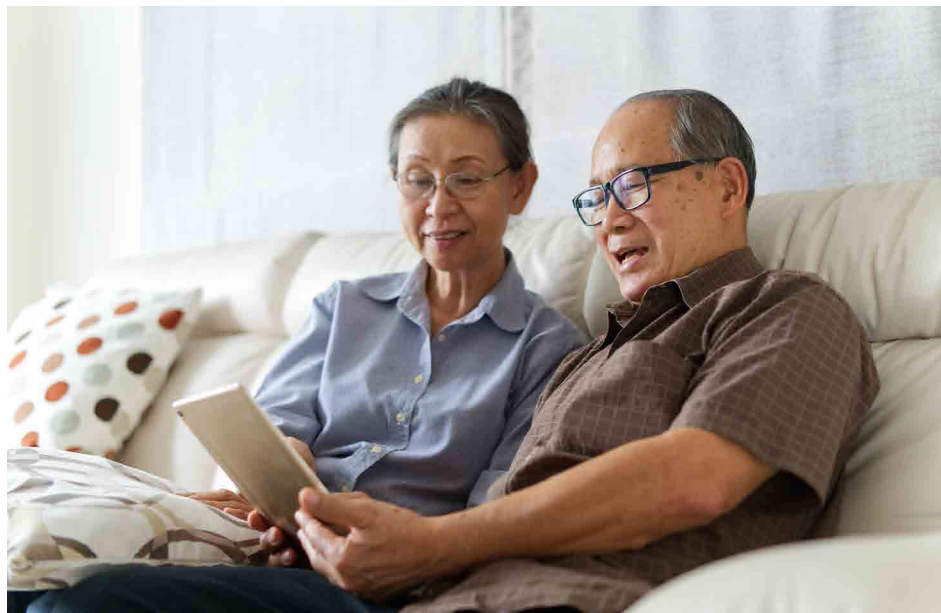
This is despite the fact that 75% of future retirees cited health care costs as one of their top concerns about retirement.²

Based on those statistics, it should be no surprise that 98% of financial professionals believe that it is important to discuss health care with clients. What is surprising is that only 17% of financial professionals are "very confident" in their ability to discuss health care, and only 11% feel "very confident" in their knowledge on the topic.³ A large part of that discrepancy may be attributable to the sheer complexity of the health care system. Many financial professionals do not believe they know enough to discuss this topic in a way that adds value to their client relationships.

This is where Nationwide can help. Let's learn about a few health care basics that almost everyone will want to know something about, by looking at a couple of examples from this millennial author's own life experiences.

Helping mom and dad with Medicare

As a first-generation college student who holds a law degree and now works in the financial services industry, I sometimes provide legal and financial suggestions to my parents. And although I am personally years away from Medicare eligibility, having a general working knowledge of Medicare proved immensely valuable to me as I helped guide my parents through Medicare enrollment a few years ago. Many other Gen Xers and millennials may be facing a similar circumstance in helping their own boomer parents make Medicare decisions. So it follows that both older and younger individuals may benefit from understanding some Medicare basics.



Medicare coverage

Medicare is a federally run insurance program, but it is not one-size-fits-all. There are choices to make. The first among them is which of two main paths to follow:

1. Original Medicare

Original Medicare, composed of Parts A (hospitalization) and B (outpatient services), is provided by the federal government and can be supplemented by private insurers who provide:

- Medigap plans that cover out-of-pocket costs incurred under Original Medicare, and
- Medicare Part D prescription drug coverage

or

2. Medicare Advantage

Medicare Advantage (also called Medicare Part C), provided by private insurers approved by Medicare.

Medicare Advantage plans replace Original Medicare and supplemental Medigap plans.

Most Medicare Advantage plans will also include prescription drug coverage as well.

Within these two main paths, there are still other choices to make:

- Whether to add a Medigap plan, and if so, which one? There are several to choose from.
- Whether to add a Part D prescription drug plan, and if so, which one? Formularies vary and may change from year to year.
- Which plan? There are many on the market. Costs and coverage vary among plans based on a number of factors, such as the type of plan chosen (e.g., HMO vs. PPO), geographic scope of the network, the cost-sharing formula, the annual deductible, types of prescription drugs that are covered, and what other services are offered (e.g., vision and dental).

Also, it is important when working with married couples to point out that unlike traditional employer-provided coverage, in which spousal coverage is often included as part of a family plan, Medicare plans are for individuals, so each spouse should choose the coverage that works best for their own medical needs.

Coverage limitations

Medicare will not cover everything. Everyone should therefore be aware of a few important categories of medical services that Medicare will not cover, the most important of which (for most people) is prescription drugs. Individuals who have Original Medicare who also need prescription drug coverage will need to buy a supplemental Medicare Part D prescription drug plan from a private insurance company. Those who buy a Medicare Advantage Plan from a private insurer must make sure the particular plan they choose will cover the prescription drugs that they need.

In addition, Original Medicare does not generally cover most dental, vision or hearing care, although some Medicare Advantage plans do. Medicare also does not generally cover most alternative medicine or care received outside of the United States.

 **Clients need to know: Medicare does not cover long-term care.**

Medicare costs

One very critical fact to understand is that Medicare is not free. There are premiums, deductibles, co-payments and co-insurance that still need to be paid. Those expenses will last throughout retirement and may increase with age and the

need for more frequent and more comprehensive care. Therefore, planning for how medical expenses will be covered is critical.

WHO IS IRMAA?

IRMAA stands for “income-related monthly adjustment amount.” It acts as a Medicare surcharge and is added to the base premium for Medicare Parts B and D. The IRMAA surcharge is calculated each year and is based on a retiree’s modified adjusted gross income (MAGI) from two years prior. This means that the applicability and amount of the surcharge may change year to year, based on income that must be included in an individual’s MAGI. The surcharges begin to apply once individuals reach a certain MAGI threshold and then increase even more as their retirement income grows.

How premiums are paid

For those enrolled in Medicare Part B, the premium is automatically deducted from their monthly Social Security benefit. But for those not yet collecting Social Security benefits,

Medicare will bill for premiums quarterly, which must then be paid either electronically or by mail.

Medicare Part A, which covers hospitalization, is free for anyone who is at least age 65 and otherwise eligible for Social Security benefits, even if they have not claimed those benefits yet.

For Medicare Advantage plans (i.e., Medicare Part C) or prescription drug coverage (i.e., Part D), individuals have the option to have the premium deducted from their Social Security benefit or to pay the plan provider directly.

Decisions and solutions

After explaining to my parents some of the fundamental aspects of Medicare, I was able to help them make some difficult decisions and find solutions to address some of their long-term concerns. I’ll share some of these decisions and solutions in the next sections — not because they are unusual and unique, but because of how typical they are for all baby boomers entering retirement.

 **Read a [white paper](#) specifically about Medicare.**



Does health influence Social Security strategy?

Although the full retirement age for Social Security is now 66 and climbing (to age 67), individuals may choose to receive Social Security benefits as early as age 62. However, for those who choose to start drawing benefits early, those benefits will be reduced. On the other hand, those who delay the start of Social Security beyond their full retirement age (up to age 70) are rewarded with an even higher Social Security amount. As a general rule, it is best to delay the start of Social Security if financially possible, particularly for those who are healthy and expect to live into their 80s or beyond.

Nonetheless, after considering my dad's health and crunching some numbers, my dad chose to take Social Security benefits early. As a fifth-generation self-employed

farmer, his benefit was based on his self-employment income from his work on the farm, which varied greatly based on the farm's profitability each year. The decision was to use his modest Social Security benefit to offset private health insurance premiums as a bridge to Medicare, because my mom's employer-provided coverage did not extend to spouses. My mom, meanwhile, continued

working full time as a dental hygienist beyond her Social Security full retirement age of 66, not stopping until the COVID-19 crisis closed the dentist office for a few months and she decided not to return when the office reopened.

When to start drawing Social Security benefits is a personal choice. Because my mom's Social Security benefit was larger than my dad's, and because of the cost and limited availability of health insurance coverage for my dad, the decision for my dad to start early and have my mom delay starting hers made sense for them. However, it did cause much hand-wringing and second-guessing — mostly on my part! Thankfully, Nationwide has resources to help analyze factors like these and help think through this decision.



For more information about Social Security, and to access a tool that helps point to an optimal filing strategy, visit nationwidefinancial.com/socialsecurity.

When to enroll in Medicare

The majority of working Americans today will become eligible for Medicare at age 65. However, as I mentioned previously, full retirement age for Social Security is now 66 and climbing (to age 67). In addition, more and more people, whether by choice or out of necessity, will continue to work full time after age 65. For those who do continue to work and have continued access to employer-provided health care coverage, there is an important decision to make.

Do they enroll in Medicare and drop their employer-provided coverage?

Do they keep their employer-provided coverage and delay Medicare? Do they enroll in Medicare and also keep their employer-provided coverage? There are a number of factors to weigh when making this decision.

- Does the individual work for an employer with fewer than 20 employees?

- Does the employer-provided coverage also cover a younger spouse who is not yet age 65 (i.e., Medicare-eligible)?
- How healthy is the individual?
- Will the individual have to change health care providers if they switch from their employer-provided plan to Medicare?
- Will the Part B premium + Medigap + Part D (or a Medicare Advantage plan) cost more or less than the employer-provided coverage?
- Does the individual want to continue contributing to a health savings account (HSA)?

Even though my mom worked full time until after she turned 66, she opted to enroll in Medicare during her initial enrollment period right before she turned 65, because her employer's health insurance coverage was less

than ideal. Because both my parents rarely leave the county (to their son's frustration), they each enrolled in a Medicare Advantage plan with a network of providers limited to their geographic area — which allowed them to find a plan that is affordable for them. If I can convince them to take any vacations or trips out of state (or even abroad), I will make sure they are covered by travel insurance in the event they become ill outside of their Medicare Advantage network.



For more information about Medicare, and to access a tool that helps clients make their Medicare choices, visit nationwidefinancial.com/medicare.

Aging at home

As I just explained, my parents are very tied to the farming community in which they have lived their entire lives. This is different from many retirees, who dream of traveling in retirement, becoming snowbirds or relocating to a warmer climate altogether. However, my parents are like other retirees in their shared fear of spending their final days in a nursing home. Thankfully, my mom is both a worrier and a planner, and she has consequently pushed my dad at various points over the past decade or more to make detailed plans so that they can age in place for their golden years.

The first thing they did, more than a decade ago, was purchase LTC insurance. This has helped my parents' peace of mind immensely, as they no longer worry about handing over their assets, potentially including the family farm itself, to pay for a nursing home or other end-of-life care. Once

the LTC policy was in place, my parents focused on making some upgrades and improvements to the family farmhouse, thinking specifically about a few design features that would ensure convenience and maneuverability when/if their mobility declines.

Finally, because my mom grew up hearing stories about the loss of a family farm during the Great Depression, and because of her personal experience watching her 401(k) balance plunge at various points during her working career, such as after the ENRON scandal in 2001 and the Great Recession in 2008, she was very fearful of losing her retirement savings. The market volatility of 2020, brought about by COVID-19 and the presidential election, also weighed heavily on her mind. These factors ultimately led her to the decision to roll over her 401(k) assets

into an IRA, and then use almost half of the IRA balance to purchase a qualified deferred annuity. My parents plan to delay the start of that annuity until my mom turns 72 (the required beginning date).

Choosing the right time to start drawing Social Security benefits, choosing the right Medicare plan at the right time, and determining how to fund your retirement and end-of-life care are all critical decisions that people must make as they near retirement. Nationwide Retirement Solutions has resources available to financial professionals to help their clients in these important decisions. Perhaps more importantly, Nationwide has products and solutions to help people live out their retirement years, whether that be by aging in place or traveling the world.

What about younger clients?

Helping guide my parents through this holistic process of planning for their retirement and future health care needs made me think about my own retirement and future financial and physical well-being. As a worrier and planner, like my mom, I am already planning for my health care costs in retirement by focusing on specific aspects of wellness.

Physical wellness

They say an ounce of prevention is worth a pound of cure. With that in mind, I try to maintain a healthful diet and exercise regularly. Thankfully, the wellness industry is growing at a fast pace and there are many health focused wellness programs available to the general public. More and more employers are also incorporating



robust wellness programs to help their employees maintain a healthful lifestyle. Many of these initiatives are free to employees. An example may be an employee assistance program (known by many as an “EAP”), or a smoking cessation program or meeting with a dietician paid for by one’s employer-provided health insurance. If your clients have access to any of these programs through their employer, encourage them to participate.

Another important thing to remember is that the Affordable Care Act (ACA) requires health plans to cover many preventive care services at no cost. This means that the service provider will not charge a co-payment or co-insurance, even if an individual has not met their yearly deductible. These preventive care services include regular screenings for things such as cholesterol, blood pressure, depression and certain cancers. Vaccines are usually covered, too.

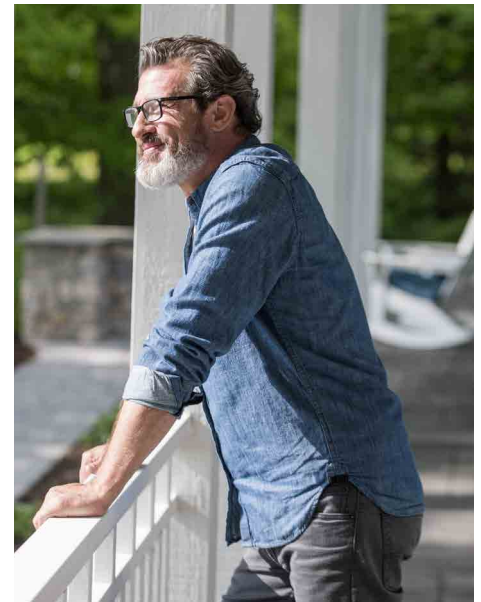
Many people are not aware of — or simply choose not to take advantage of — these free preventive care services from their health plans. Identifying and treating minor issues and ailments early saves people from more costly and physically intrusive treatments later in life. That is why I

take time to understand my health insurance coverage and make sure I seek out all of the free preventive services and screenings available to me. Because the longer I stay healthy, the less I will spend on medical care now and in the future.

Financial wellness

Although when most people hear the word “wellness,” they may think only of physical wellness, financial wellness is just as critical. Aside from the general financial advice that all young professionals receive about saving for a rainy day and saving for retirement, a more specific piece of advice for many younger workers today is to earmark savings specifically for the costs of health care in retirement. There is no better way to do that than with a health savings account, generally known as an HSA.

An HSA is a tax-exempt trust or custodial account set up with a qualified HSA trustee to pay or reimburse an individual for qualified medical expenses.⁵ Qualified medical expenses include many things but predominantly are the costs of diagnosis, cure, mitigation, treatment or prevention of disease.⁶ Transportation costs essential to medical care may also be qualified



medical expenses. Also included are amounts paid for qualified long-term care services and limited amounts paid for qualified long-term care insurance contracts.⁶ Many medical-, prescription drug-, dental- and vision-related expenses are safely considered to be qualified medical expenses.

Money contributed to an HSA may be used immediately, or it may be invested and saved until any point in the future. Unlike employer-provided flexible spending accounts (FSAs), there is no “use it or lose it” rule.

Money saved and invested in an HSA is subject to a triple tax benefit:

- 1** Money contributed to the HSA (up to an annually adjusted limit) is not subject to current federal (and, in most cases, state) income tax. And if it is contributed through payroll withholding, it will also not be subject to FICA taxes.
- 2** If money in the HSA is invested (for instance, in a mutual fund), the earnings grow tax free.
- 3** So long as the money is distributed from the HSA to pay for or reimburse a qualified medical expense, that distribution (of basis and earnings) is also tax free.

It is this triple tax benefit that makes HSAs such a wonderful tool for younger workers to set aside money to grow on a tax-favored basis.

Perhaps the best attribute of an HSA, though, is that because it is intended to help people save specifically for health care, it is a hybrid tool that helps build both physical and financial wellness.

Conclusion

As a teenager in the late '90s, I was old enough to understand and be impacted by the stress and worry related to our family's lack of comprehensive health coverage. Unfortunately, neither of my parents had access to employer-provided health coverage during that time. And because of back injuries my dad sustained while farming, the health insurance my parents were able to purchase was extremely expensive and often didn't even cover my dad's pre-existing conditions. During this same period, the cost of medical care began to rise at a pace that far exceeded inflation — and wages.

Although the ACA did address the coverage issue by requiring coverage of pre-existing conditions and penalizing large employers who did not provide comprehensive health care to full-time employees, it did not solve the problem of rising medical costs. In fact, the cost for a family of four with a preferred provider organization (PPO) health plan more than tripled from 2001 to 2018, despite the passage and implementation of the ACA during that same period. These increases impact not only young families, but also retirees. For example, a 65-year-old male needs \$79,000 in savings and a 65-year-old female needs \$104,000 in savings for a 50% chance of having enough to cover medical premiums and median prescription drug expenses in retirement. For a 90% chance of having enough savings, a man needs \$144,000 and a woman needs \$163,000 to cover these costs.⁸



It is numbers like those that make the case so clearly. Planning for health care costs that may occur before and during retirement is a critical component of comprehensive financial planning. Financial professionals who understand its importance — and also understand enough about the topic of health care to help guide their client through these choices — will be a valuable and appreciated resource for their clients.

The Nationwide Retirement Institute has a number of tools and resources, as well as consultative expertise, to help financial professionals serve their clients regarding the topic of health care. For example, we offer a Health Care/Long-Term Care Cost Assessment Fact Finder that generates a client-specific report anticipating their health care costs in retirement. The report can help you have important conversations about saving specifically for health care costs.



Find the Fact Finder at
nationwidefinancial.com/healthcare.

Explore more resources at
nationwidefinancial.com/medicare.

For additional consultation, contact the Nationwide Retirement Institute Planning Team at **1-877-245-0763**.

Book a consultation online.
See available topics [here](#).

¹ "2020 Census Will Help Policymakers Prepare for the Incoming Wave of Aging Boomers," America Counts, census.gov/library/stories/2019/12/by-2030-all-baby-boomers-will-be-age-65-or-older.html (Dec. 10, 2019).

² "Nationwide Health Care Consumer Survey," conducted by The Harris Poll on behalf of the Nationwide Retirement Institute (July 2020).

³ "Retirement Income Planning Among U.S. Financial Advisors," presented by The Harris Poll on behalf of Nationwide Retirement Institute (2017).

⁴ "Preventive care benefits for adults," healthcare.gov/preventive-care-adults/ (accessed March 25, 2021).

⁵ IRS Publication 969 (2020).

⁶ I.R.C. 213(d)(1).

⁷ Milliman Medical Index (2018).

⁸ "Savings Medicare Beneficiaries Need for Health Expenses in 2019: Some Couples Could Need as Much as \$363,000," Paul Fronstin and Jack VanDerhei, eбри.org/content/savings-medicare-beneficiaries-need-for-health-expenses-in-2019 (May 16, 2019).

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NFM-20663AO (03/21)

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Document Title: Incorporating health care costs into retirement planning

Description: A white paper from the Nationwide Retirement Institute that touches on Medicare, Social Security, financial wellness and health savings accounts — all as part of preparing for health care expenses in retirement.

Keywords: health care; health expenses; long-term care; Medicare; retirement