Conversation Guide

6 Ways to Start the Discussion on Paying for Health Care in Retirement

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Editor

Many retirement plans don't adequately cover how to manage health care expenses. Here are six ways to approach the topic.

Health care can be a significant and sometimes surprising expense for retirees. Though health care costs fluctuate, a couple that retired at age 66 in 2018 could expect, on average, to need to use 48% of their lifetime Social Security benefits to cover health care expenses.[1]

When financial professionals and their clients consider how to pay for health care in retirement, they often rely on current cost of care averages and any pertinent information from their conversations, such as family health history. This strategic approach can help retirees better prepare to financially manage their health care expenses in the future. People working with a financial professional were more than twice as confident they would have enough money for health care expenses in retirement compared to those not working with a financial professional.[1]

These six conversation starters can help financial professionals and their clients open and strengthen the lines of communication about expectations for future health care expenses.

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1 Boomer Expectations for Retirement 2019. Insured Retirement Institute, April 2019.

Conversation 1

Open the door to discussion

The reasons people may not have a plan for how to pay for health care in retirement can vary. Some simply believe they will rely on Medicare, while a small percentage simply don't consider it to be a priority.[1] One of the challenges to developing a plan, however, is that health care can be a difficult topic to talk about.

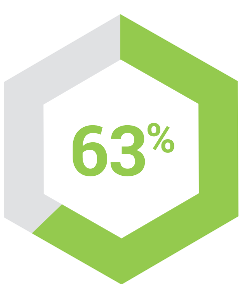
Health care and aging may seem like a personal topic, making it challenging for both financial professionals and clients to discuss in detail. The financial implications of both health care and additional care as one ages can be critical to retirement planning. To overcome these challenges, financial professionals and their clients may consider opening the conversation by discussing retirement goals and then connecting them to health care costs. For example, someone who is retiring early may want to consider how they will secure health insurance and what it may cost until they're eligible for Medicare. Leading with goals may be a more comfortable way of entering the conversation about health care and its relationship to money and planning.

Another important element of preliminary discussions is to talk about any preconceived expectations about how health care will be paid for – especially those that could be rooted in incorrect assumptions. For instance, one common misconception is that all health care expenses in retirement are covered in full by Medicare.[1] The reality, however, is that Medicare has premiums and deductible costs that need to be paid out of pocket. Other out-of-pocket expenses could include hearing and dental care, as well as the cost of personal care as someone ages.[2]

Establishing expectations around health care and how it's paid for can lay the groundwork for in-depth conversations about financial strategies in the future.

Conversation Goals:

- Address any potential misconceptions about health care in retirement
- Review retirement goals and how they relate to health care
- Discuss the role of Medicare, including the cost of premiums, how much it covers, and what types of health care expenses it doesn't cover



Among people who don't include health care expenses as part of their retirement planning, 63% said it was because they were unsure of the costs associated with it.[1]

[2] What's not covered by Part A and Part B? Medicare.gov, as of March 2021.

Conversation 2

Build and inform a team

One of the key roles a financial professional can play is to facilitate key meetings about a client's plans in retirement. These meetings can help a client make sure their family members or trusted contacts are informed of their future plans. When it comes to health care, these conversations can be critical, especially if one family member may be playing a larger role in either providing care to a loved one at a later time or simply helping to coordinate needs because they live closer to the individual. The goal of a family meeting is to help all family members understand their loved one's goals, plans for health care, and financial situation.

Along with family members or trusted contacts, consider whether an estate planning attorney should be part of any discussions on health care to assist with legal directives or setting up a financial power of attorney, which is someone who can manage finances if needed. The financial power of attorney may not need to be involved in every discussion, but bringing them into broad discussions about goals can help them understand what's expected of them and help them learn different aspects of the client's finances and goals.

Conversation Goals:

- Keep family members informed of important decisions related to health care goals and strategies
- Review whether key documents, such as a financial power of attorney, have been set up in the event of a health concern
- Determine what role family or loved ones may play when additional care is needed

Conversation 3

Explore the cost of future in-home or community care

Seventy percent of current 65-year-olds are likely to require a higher level of care as they get older, with 1 in 5 people potentially needing care for more than five years.[3] That type of care is typically not covered by Medicare, which makes planning for the financial impact important.

This discussion can include some of the following questions:

- Where do you plan to live and receive this care – at home or in a community or other residential setting?
- Will a family member or trusted contact help provide care or manage finances?
- If so, will financial support be considered for that caregiver?
- Are home modifications necessary in order to age at home?

Even though these scenarios may be decades away, starting the planning process sooner rather than later is important because there are typically significant out-of-pocket costs associated with this type of care.

National health care spending is expected to grow at an average annual rate of 5.4% between 2019 and 2028, ultimately reaching $6.2 trillion in 2028.[4]

Reviewing different scenarios and accounting for projected cost increases in the health care industry may help both financial professionals and clients feel more confident about the path they're choosing.

Conversation Goals:

- Review desires and options for future care, such as at home or in a community setting
- Review the current average costs for preferred care setting

Current Estimated Cost by Living Arrangement

Type of Living Arrangement	Annual Cost	Other Considerations
Continuing care retirement community	Varies widely depending on the community, but can be between $24,000 and $48,000 per year[5]	The average entry fee is $329,000, but the range varies and some communities have entry fees of more than $1 million[5]
Nursing home	Average national cost is over $105,000 per year for a private room[6]	N/A
Home care	Based on services you hire; average national cost is over $54,000 per year for 44 hours of work per week[6]	Additional costs may be incurred, such as updating the home to make it more accessible

[3] How Much Care Will You Need? LongTermCare.gov, February 18, 2020.

[4] NHE Fact Sheet. Centers for Medicare and Medicaid Services, 2019.

[5] How Continuing Care Retirement Communities Work. AARP, October 24, 2019.

[6] Genworth Cost of Care Survey. Genworth Financial, conducted by CareScout®, August 2020.

Conversation 4

Discuss lifestyle and health impact

While someone may not be able to control the cost of a visit to the hospital or an MRI test, there are ways to potentially reduce the cost of health care in retirement. Eighty percent of health outcomes are caused by factors outside the health care system.[7] These five factors are called social determinants: health care access and quality, education access and quality, social and community context, economic stability, and neighborhood and environment.

Social determinants impact not just health, but finances as well. Researchers have found, for instance, that people who suffer from social isolation are four times more likely to be re-hospitalized within a year of an initial hospital stay, bringing an additional round of health care expenses.[8] Therefore, retirees' health and finances may benefit from being part of a community or maintaining regular interactions with friends.

With that in mind, financial professionals and their clients may want to discuss how their clients' preferred retirement lifestyle – including how often they receive preventive care, where they live, and how active they plan on being – relates to these five social determinants. Then consider whether small changes may benefit their health or finances. For example, what impact would living close to a specialized medical facility have?

Living in proximity to medical facilities may improve access to health care, but it could also result in additional housing expenses if the cost of living is higher in that location. Additionally, choosing a different place to live could move someone further away from their family or community.

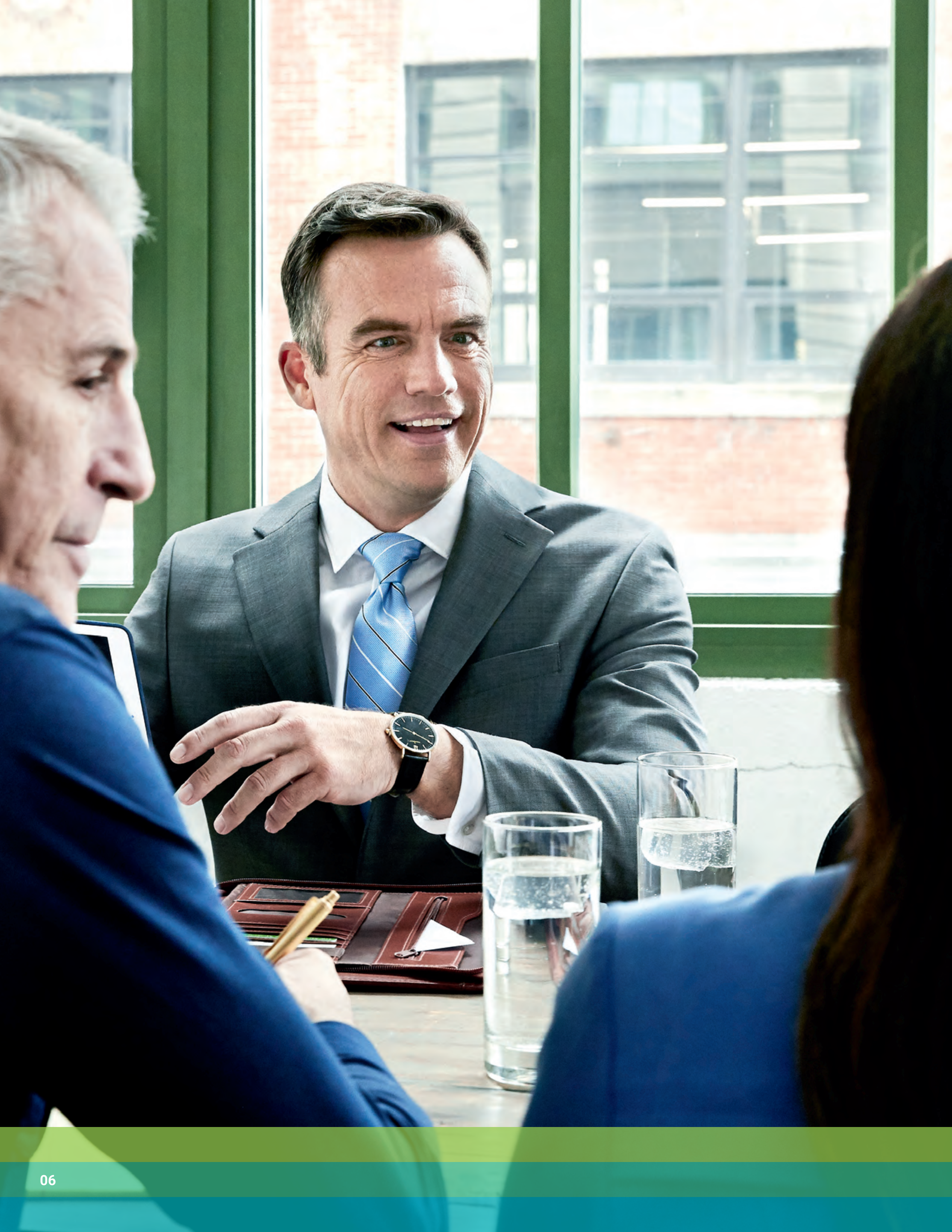
Making decisions that balance financial impact and personal preference with the potential impact on health may be an important part of how someone plans for retirement.

Conversation Goals:

- Understand factors within your control, such as where you live, that may impact health
- Review the financial impact of different lifestyle scenarios, such as living closer to a specialized medical facility

[7] Smart health communities and the future of health. Deloitte, July 6, 2019.

[8] Value-based Care Report. Humana, 2019.



Conversation 5

Determine existing health and family history

Transparency is important to develop an accurate expectation around what future health care may cost. Financial professionals and their clients can start discussions about health care by talking about any family history of chronic conditions, as they can have a significant impact on the amount needed for health care in retirement.

About 50% of Medicare recipients over age 65 have five or more chronic conditions, but early detection and preventative care have been found to reduce treatment costs.[9,10] For instance, one study found that the early diagnosis of Alzheimer's could save patients $64,000, or about 15% of the total costs associated with the disease.[10] Even still, annual health care costs for people with certain chronic conditions can range from $10,500 per year to nearly $30,000, depending on the condition, so understanding these potential costs early can help in the planning process.[11,12]

This discussion can help set expectations of what a client's health care costs may be compared to the $662,000 national average lifetime costs for a couple retiring in 2021.[13] Those who might have higher expenses may want to discuss with their financial professionals whether an adjustment to their savings or investing strategy should be considered, or if additional sources of guaranteed income from an annuity would help provide consistent funding for medical expenses.

Conversation Goals:

- Openly discuss current health and family history
- Consider impact of chronic diseases on cost of care

Annual Per-Patient Cost by Disease

Chronic Disease Or Condition	Estimated Annual Per-Patient Cost
Cancer[11]	$10,500 – $25,500
Osteoarthritis[14]	$11,500
Diabetes[15]	$16,800
Heart failure[12]	$29,000

9 Managing the Most Expensive Patients. Harvard Business Review, January – February 2020.

10 New Alzheimer's Association Report Reveals Sharp Increases in Alzheimer's Prevalence, Deaths, Cost of Care. Alzheimer's Association, May 30, 2018.

11 Costs of Cancer Care Across the Disease Continuum. The Oncologist®, July 2018.

12 A Systematic Review of Medical Costs Associated with Heart Failure in the USA (2014–2020). PharmacoEconomics, August 19, 2020.

13 2021 Retirement Healthcare Costs Data Report. HealthView Services, December 2020.

14 The Burden of Musculoskeletal Diseases in the United States: Osteoarthritis. United States Bone and Joint Initiative, 2014.

15 Economic Costs of Diabetes in the U.S. in 2017. American Diabetes Association, March 2018.

Conversation 6

Identify income sources

Being able to understand the different expenses associated with health care – from insurance premiums to care related to aging – may help both financial professionals and clients feel more comfortable about developing a strategy around the sources of income to help cover those costs. Consider discussing each of the topics below.

Guaranteed income: Only 23% of baby boomers between the ages of 56 and 61 expect to receive a private pension, so the majority of retirees will receive most of their guaranteed income from Social Security.[1] An annuity may be one option to provide additional lifetime income that can help increase confidence. Fifty-one percent of annuity owners were confident they would have enough money for health care expenses, compared to 25% of people who did not own one.[1]

Savings and investments: Financial professionals and clients can review investment strategies within retirement accounts to determine if they have the potential to create enough savings to cover health care expenses in retirement. Health savings accounts (HSAs) can offer significant tax benefits – contributions can be made on a tax-deductible basis for those who qualify, and assets grow tax-free. HSAs also have the added benefit that money in them can typically be used tax-free for qualified medical expenses. Only 8% of baby boomers are currently funding an HSA,[1] so financial professionals and their clients may want to discuss if the client is eligible to fund an HSA, either on a regular or catch-up basis. Eligibility is based on enrollment in a high-deductible health insurance plan and other factors.

Other income sources: What does retirement look like, and is working longer something that's being considered? Whether full- or part-time, continuing to work could provide opportunities to:

- Save more for retirement
- Contribute to an HSA
- Delay claiming Social Security to increase the monthly benefit

There are also health considerations to discuss if working longer is a strategy, including whether someone's health will allow them to work longer and the potential of continued engagement with important tasks to help improve mental health.[16]

Conversation Goals:

- Review how current income sources, such as Social Security and retirement savings, could be used to pay for health care expenses
- Discuss additional ways to fund health care expenses, such as an annuity
- Identify any gaps between expected income and projected expenses

[16] Working later in life can pay off in more than just income. Harvard Health Publishing, June 2018.

Include Health Care as Part of Strategic Retirement Savings Conversations

Clients who work with a financial professional are more than twice as likely to feel confident they will have enough money for health care expenses compared to those who do not work with a professional.[1] Starting conversations about health care allows financial professionals and their clients to take a proactive approach to preparing for these costs.

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