Actions you can take today to help keep tomorrow's health care costs under control

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Taking a few steps now, while you're still working, to prepare for your health care costs in retirement can give you more choices down the road.

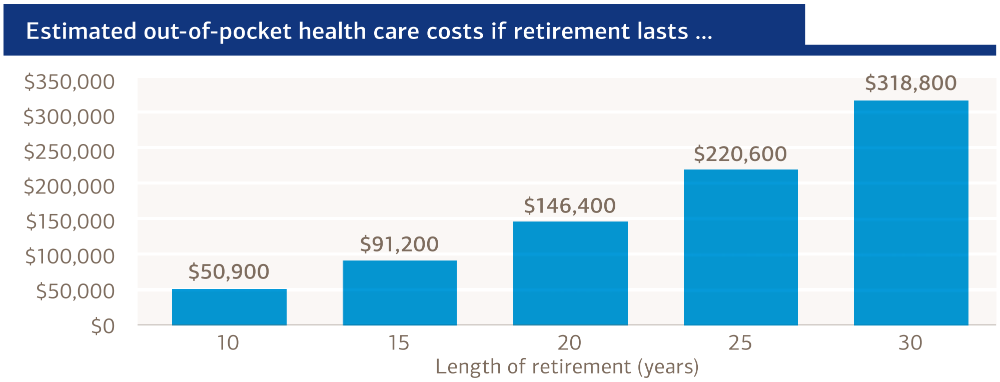
As health care costs continue to increase faster than the rate of inflation, there are five steps you can take today that will help prepare you to manage those costs when you retire — even if that's 10 or 20 years away. You can start right now to focus strategically on meeting your future health care needs.

Bill Hunter, director, personal retirement strategies and solutions, Bank of America Merrill Lynch, points to new research to suggest why starting now is critical. "The 2017 Age Wave study[1] found that health care expenses were the top financial concern for older clients, even for the wealthiest retirees and pre-retirees," says Hunter. "Planning early and strategically to better prepare for health care costs in retirement reduces the odds that younger generations will have to worry as much as their parents did."

Getting a head start with your planning is critical, Hunter says, because with increased life expectancies, future retirees may face substantial health care expenses. Those costs add up over a 20- to 30-year retirement (see chart, *below*).

Estimated health care costs for 30 years in retirement

Americans are living longer due to advancements in medicine: The average person can live 30-plus years in retirement.



Source: Yamamoto, D.H. (2013), Health Care Costs: From Birth to Death, Health Care Cost Institute Report (latest available data). Estimates assume retirement starts at age 65 and include uninsured out-of-pocket health care costs and Medicare and any other insurance premiums. Estimates exclude long-term care costs.

Key Points

- Medicare pays only a portion of health care expenses, so you need to factor this into your retirement savings strategy.
- Consider increasing tax-favored 401(k), IRA or Health Savings Account contributions to help cover future health care costs.
- Healthy living and long-term care insurance can help you lower costs and stay independent after you retire.

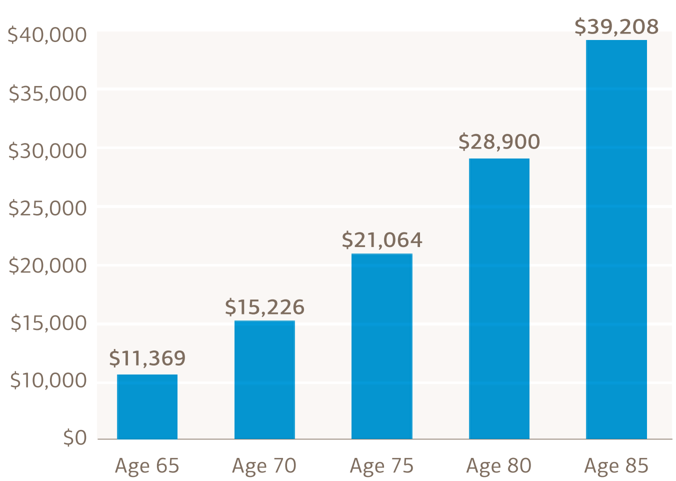
In addition, fewer and fewer employees can count on help from their employers with those costs. More than 25 years ago, 66 percent of large companies offered health benefits to retirees. Today, 24 percent of large companies do.[2]

That means a moderately healthy 65-year-old couple paying about $11,369 a year for health care in 2017 could pay close to $21,064 a year at age 75 and nearly $39,208 a year by age 85 (see chart, *below*).[3]

Projected health care expenses with Medicare

Even with the assistance of Medicare, you should plan for substantial out-of-pocket health care costs.

Projected annual health care expenses for a 65-year-old couple



Assumes moderate health. Health care cost projections include Medicare Parts B and D, supplemental insurance premiums and dental premiums. Source: HealthView Services, 2017.

As you age, costs can vary widely depending on your health and where you live. That's why it's critical for you to understand today what your health care costs might be when you retire — and to begin to plan strategically to manage them. The sooner you start, the greater the impact any changes you make will have on your retirement — and the more health care choices you could have in the future, from the doctors you select to where you can choose to live if you need long-term care.

The steps outlined here — gathered from retirement, financial planning and health care professionals — can help you estimate your future health care costs, enhance your retirement plan and guard against risks.

Step 1: Get up to speed on what Medicare will cover and how much you'll need to pay on your own.

Contrary to popular opinion, Medicare won't cover all of your medical expenses, nor is it free. In fact, the basic Medicare benefits (Part A and Part B) cover about *half* of all health care expenses on average. They don't cover deductibles and co-pays, prescription drugs you take on a regular basis, dental care and dentures, hearing aids and alternative treatments such as acupuncture. They also don't cover long-term care if you have an illness that prevents you from taking care of yourself.

What health care costs can you expect?

Knowing what Medicare pays for — and what it doesn't — can help you understand how much you need to plan for in your retirement investing strategy.

Two ways to pay for health care costs in retirement
(Costs and choices vary by state)

Original Medicare
Buy parts separately and choose your own doctor

Part A
Hospital coverage
Provided free* in most cases, but you must pay a deductible and coinsurance

Part B
Outpatient coverage
Premiums are deducted from your Social Security payment, and you must pay a deductible and coinsurance*

Supplemental insurance (Medigap)
Premiums vary by policy and company*

Part D
Rx coverage
You pay premiums and co-pays

Medicare Advantage Plans
Buy the packages, like an HMO or PPO; use plan's doctors

Part C=
Part A + **Part B**
(may include Part D)
You pay premiums and co-pays

Part D
Rx coverage
You pay premiums and co-pays (if not included in Part C)

Source: Adapted from *Medicare & You 2018*.
*For additional details, visit medicare.gov.

"Consumers estimating their future Medicare costs focus on premiums and co-payments, but those can be the nickels and dimes," says Katy Votava, Ph.D., founder of **GOODCARE.com,** a consultancy that helps consumers understand their health care service options and costs. "Even without a serious illness, the cumulative effect of out-of-pocket spending on coinsurance and uncovered expenses can quickly amount to thousands and put pressure on your retirement income stream."

Average annual out-of-pocket health care costs after Medicare

What you pay for health care in retirement can vary widely based on your age, income, health status and the choice of plans in your state. These average annual costs for individuals in moderately good health can give you a good starting point for planning.

For individuals with Medicare	
Age 65	$6,249
Age 70	$6,785
Age 75	$8,373

Assumes Medicare Parts A, B and D, as well as Medigap Plan F premiums. Includes vision, dental and hearing. Poor, Moderate, Excellent health costs reflect insurance cost data associated with these self-reported health classifications. Health insurance cost estimates provided by HealthView based on historical data and actuarial projections as of 2017. Conditions that may affect your health status include, but are not limited to cancer, cardiovascular disease, high blood pressure and high cholesterol. Smoking may worsen your health status.

The amount paid out of pocket for prescription costs not covered by plans is one of the most common "sinkholes" people fall into, says Votava. "Ninety to 95 percent of folks on Medicare overspend for their prescription drugs because various plans cover medications differently, and patients don't always do their homework," she says.

Another unanticipated cost may be the extra premiums you'll pay for Part B and Part D coverage if your income is above certain thresholds or if you enroll in Medicare before you begin taking Social Security. If you have higher income, you will also have to pay an additional premium for Part D prescription drug coverage. For more information on the latest Medicare Part B premiums, visit **medicare.gov.**

Medicare Part B premiums increase with income

If the income reported on your IRS tax return for the year 2016 goes above certain thresholds, your premiums for Part B coverage will be greater than those for most Medicare recipients.

If your modified adjusted gross income (MAGI) in 2016 was ...		... and you enroll in Medicare in 2018
File individual tax return	File joint tax return	Your Part B premium in 2018 will be
$85,000 or less	$170,000 or less	$134.00*
above $85,000 up to $107,000	above $170,000 up to $214,000	$187.50
above $107,000 up to $133,500	above $214,000 up to $267,000	$267.90
above $133,500 up to $160,000	above $267,000 up to $320,000	$348.30
above $160,000	above $320,000	$428.60

Source: Medicare.gov.
*If you already pay your Medicare Part B premium through your monthly Social Security benefit, you'll pay less ($130 on average). Social Security will tell you the exact amount you will pay for Part B in 2018. Please talk to your tax advisor or go to medicare.gov for more information.

What you can do now: "You first need to understand the foundation that Medicare provides so you know what you need to save on your own," says Hunter. Review the Average Annual Out-of-Pocket Health Care Costs After Medicare chart (*top left*) to get a sense of what your expenses might be and think about factoring those costs into your retirement planning and investing goals.

Also, if you have a health condition that's likely to persist when you get older, start now to get a better understanding of what your medications should cost so you can make a more informed comparison among available drug plans — today and in the future.

Step 2: Use all of your savings opportunities, from catch-up retirement contributions to a tax-free Health Savings Account (HSA).

Naturally, you want to take full advantage of contributing to your 401(k) and IRAs. If you are age 50 or older, you can use the catch-up provision to increase your contributions to your 401(k) and to your IRA for the most recent tax year. And the sooner you increase your contributions, the longer your investments have to grow tax-deferred. If your cash flow makes these catch-ups difficult, consider the possibility that you may be living beyond your means. You might also consider funding a Health Savings Account (HSA) on your own or at work, if your employer offers one. Created as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, HSAs are unique tax-advantaged savings vehicles that integrate health care spending and retirement saving. HSAs are only available with qualified High-Deductible Health Plans (HDHPs) to help you save money to cover the higher deductibles and lower premiums that come with the HDHP option.

If your company offers a qualified HDHP and HSA, you can have your employer make a contribution to the account directly from your paycheck before taxes. If you have an HSA on your own, you can make the contribution with after-tax dollars, then deduct the contributions you paid later when you file your annual federal income tax return. That money has the potential to grow tax-deferred, and any amounts you take out to cover qualified health care expenses are federally tax-free. To learn about current contribution limits to qualified HDHPs and HSAs, visit **irs.gov.**

Deciding whether the qualified HDHP and HSA makes sense for you is "all about doing the math," says Bob Kaiser, senior vice president, health benefit solutions, Bank of America Merrill Lynch. It also requires a shift in mindset. Rather than just checking into the hospital and assuming everything is being taken care of, a qualified HDHP encourages you to become a cost-conscious consumer and a better health care shopper. It also helps you think longer term, Kaiser says, because you're seeing what different procedures actually cost. "If you go to **healthcarebluebook.com,** for example, you can learn that an MRI can range from $600 to $3,000, depending on where you live," he says.

What you can do now: Review your financial situation and your typical health care costs to consider whether the higher deductibles but lower premiums associated with the qualified HDHP and HSA may be a good choice for you. "Even if you choose to stay with a more traditional health plan, the behaviors that health accounts encourage, like more closely monitoring your health care expenses and becoming a more cost-conscious consumer, can be advantageous," Kaiser notes.

Step 3: Embrace healthy living — one of the best investments you can make today.

Taking care of yourself by practicing preventive care often results in lower future health care costs and greater independence in retirement. Ben Storey, director, Retirement & Personal Wealth Solutions, Merrill Lynch, equates staying healthy with human capital. "There's an analogy that just as businesses invest in technology, people should invest in themselves through education and experience, putting 'human capital' on the asset side of the ledger," Storey explains. "I'd argue that investing in your health so you function better is another key element of building human capital."

The good news for those already pursuing a healthy lifestyle is that many preventive health care services are covered in full under the Affordable Care Act (ACA). (The ACA is the current national health care program, but that could easily change in the future.) For many, however, it's not the cost but an inclination to focus on and care for others that stands in the way of healthy living. "You need to take care of yourself in a sustainable way," says Storey. If you don't do that, then you risk not being able to meet other people's needs over the long term, he says. Or worse still, you may end up dependent on them.

What you can do now: Make a list of appointments or procedures you've put off and start scheduling them. You can help prevent negative health events by exercising regularly, going to your medical appointments and getting the right preventive care.

Step 4: Find ways to address the major risks: "It won't happen to me" isn't enough.

Admit it. When you read that seven in 10 people will require long-term care (LTC) in their later years,[4] you figure you'll be among the lucky 30 percent who won't need assistance with the activities of daily living, such as walking, eating, toileting or bathing.

And that's understandable, says Storey, who sees great reluctance among consumers to deal with the prospect of getting older and more frail as they age. "A goal like college funding is fueled by dreams of a bright future for your kids. But buying LTC insurance is, well, dreary," Storey says. "Even though buying an LTC insurance policy early in your 50s often means you'll pay lower premium costs, most people don't want to think about it — and so they don't do it." But failing to plan may limit your future care choices and place a burden on your spouse or other loved ones, he says. Consider reframing it in the context of your values: If you want to remain as independent as possible, think of an LTC policy as a way to help ensure your children are also independent of needing to care for you.

It's also important to understand that LTC insurance is not just for nursing homes but can cover in-home care and assisted living residences that are more appealing from a lifestyle perspective. Also, newer "hybrid policies," which combine life insurance and LTC insurance, address consumers' chief reservation: that they are investing in coverage they will never use. With one of these new hybrids, for example, you can invest $100,000 in an LTC policy that buys you a credit of perhaps $250,000 if you need care down the road. However, if you never need to use the money for LTC, it becomes a life insurance policy that later pays your heirs a tax-free benefit of $150,000. And, if you change your mind, you can get your initial investment back without interest.

"These hybrid policies are especially interesting in the current low-interest-rate environment," notes Storey. "If you have cash sitting around earning nothing in the bank, this policy takes a risk off the table."

Alternatively, you can simply plan to save ambitiously to cover LTC expenses. "Self-insuring is certainly an option, but realistically that's extremely hard to do. The advantage of an LTC policy is that it will be there for you even if you might not have saved enough on your own," Storey adds.

Covering the costs of long-term care

The costs of long-term care can vary widely, depending on the type of care offered, where it's provided and where you live.[5] Living in a state where health care services typically cost less could substantially reduce your expenses.

National median costs of care

Nursing home (semiprivate room)	$235/day	$85,776/year
Assisted living facility	$3,750/month	$45,000/year
Home health aide	$22/hour	$49,188/year

Source: Genworth 2017 Cost of Care Survey

Another risk to manage is a late-career layoff or early retirement; you'll need to purchase other health insurance to bridge the gap until Medicare kicks in at age 65. Today the premiums for this interim coverage average about $9,200 per year for people in their mid-50s to age 64.[6] But you may want to check out all of your options because the actual premiums can vary widely among providers.

For example:

- Some companies allow employees who retire early to continue their corporate health insurance plans. The companies charge premiums that are similar to what they were during employment.
- Most companies with at least 20 employees must offer an extension of benefits (up to 36 months) under COBRA, although this can be very expensive.

- The ACA health care marketplace could offer coverage that's less expensive than COBRA. You can check out the rates for the maximum out-of-pocket cost limit for any individual and family marketplace plan for the current year at **healthcare.gov.**

What you can do now: Weigh the pros and cons of self-insuring versus purchasing LTC insurance or a new hybrid insurance policy with LTC included. To manage the cost, remember that "it's not essential to cover the total projected expense all at once," says Hunter. "Do what you can now and plan to add coverage, perhaps increasing your daily benefit, as you are able."

If you have to retire before reaching Medicare eligibility at age 65, look into health care coverage through your state's health insurance marketplace.

Step 5: Stay current with changes.

There's no question that viewing your health care in a more strategic way will be complicated by the fact that our nation's health care system is changing.

"Everything you thought you knew about health care is changing, and you need to reevaluate your situation and make new choices," says Laura Grogan-O'Mara, director, legislative and public policy, Bank of America Merrill Lynch.

Because the ACA is an equivalent program in size and scope to Social Security or Medicare, Grogan-O'Mara underscores that it will be important to watch how the law changes over time and whether it leads to additional changes in how we access health care. "It's a new normal and we need to pay attention and educate ourselves to make smart choices so we have options as we move forward," she says.

What you can do now: Stay on top of the changes in health care options available from your employer and your state's health care marketplace. Visit the Kaiser Family Foundation website at **kff.org,** where you'll find everything from health care policy analysis to helpful online tools. "The Kaiser Foundation is a nonprofit, nonpartisan leader in health policy analysis and a source I rely on," says Grogan-O'Mara.

There's no time like the present.

People can view themselves as years younger than their actual age, so if you figure you have plenty of time before you need to focus more closely on your own health care needs, you may want to be a little more realistic and start planning soon for your future costs. As Storey advises, "It's never too early to start."

How Merrill Edge® can help

Merrill Edge® offers insights and resources to help you plan for health care expenses in retirement.

- To see how health care costs can affect your retirement savings goal, use the **Retirement Evaluator™** on **merrilledge.com** (log-in required).
- For help with your retirement planning and health care saving choices at work, check with your employee benefits office.
- To learn more about planning for health care costs in retirement, visit these helpful sites:
  - **medicare.gov** for calculators to help you estimate future health care costs
  - **GOODCARE.com** for tools to help you manage health care expenses before and during retirement

Looking for more assistance with your retirement savings and investing strategy?

A Merrill Edge Financial Solutions Advisor™ can discuss how to factor health care costs into your retirement strategy and help you keep your plan on track. Visit **locations.merrilledge.com** to find a Merrill Edge Financial Solutions Advisor™ at a select financial center near you. Or call us at **888.ML.INVEST** (888.654.6837), Monday through Friday from 8 a.m. to 10 p.m. Eastern.

If you are not a Merrill Edge client, please call **888.MER.EDGE** (888.637.3343) to learn more and get started.

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[1] "Finances in Retirement: New Challenges, New Solutions," Age Wave/Merrill Lynch, 2017
[2] "Employer Health Benefits," Kaiser Family Foundation/Health Research & Educational Trust (HRET), 2016
[3] "2017 Retirement Health Care Costs Data Report," HealthView Services, 2017
[4] U.S. Department of Health and Human Services, accessed September 2017
[5] Genworth 2017 Cost of Care Survey
[6] Estimate provided by HealthView based on historical insurance data, October 2016

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