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Health care

White paper

Start the conversation about planning for health care costs in retirement

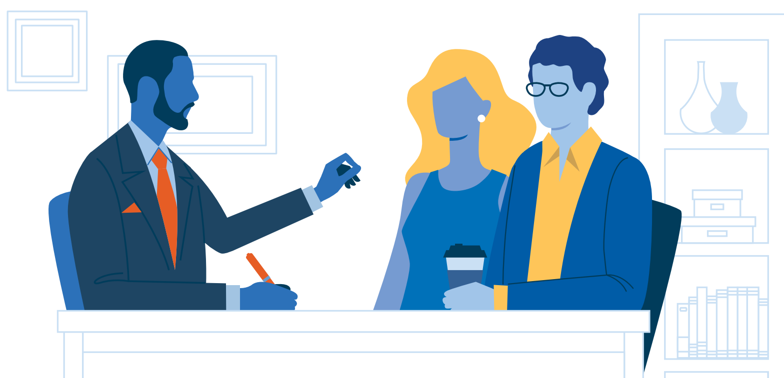
Clients need their financial professional to bring up the topic and get the discussion started.

Key highlights

- Both clients and financial professionals seem to understand the importance of discussing retirement health care costs, yet planning is lagging behind
- Traditional retirement models may not meet the needs of today's retirees, who are living longer and facing rising health care costs
- Clients wish they understood Medicare better, so there are opportunities for knowledgeable financial professionals to provide valuable help

Mark, a financial professional, meets his new clients, Michelle and Brian, a married couple in their late 30s, for the first time. After reviewing their finances, Mark engages them on a number of savings topics and planning issues, including their son's college education, their life insurance policies, and their budget for retirement. When Mark leaves, the couple feels confident that they have made the first step toward a financially secure future.

But they did not discuss health care expenses in retirement — nor the need to plan for them.



This paper seeks to shed light on why health care cost conversations are not occurring and to provide financial professionals with the information and confidence to embrace the topic as part of a more holistic and long-term approach to financial planning. The focus places emphasis on "life risks" — including retirement medical expenses, life expectancies and long-term care. Understanding how these variables should be integrated into all financial plans, addressing individual health care needs and providing investment solutions may enhance financial professional/client relationships and offer confidence to both parties throughout retirement.

Examining the need

Allocating money to pay for health care has rarely been included in traditional retirement planning. Over the past decade or so, however, a paradigm shift began as thousands of new retirees enrolled in Medicare. No longer enjoying the benefit of an employer paying a portion of health insurance costs, these retirees discovered that they were responsible for things such as Medicare premiums, supplemental insurance premiums and out-of-pocket costs for hospitalization, doctor visits, tests, prescriptions, hearing, vision and dental.

Many were unprepared for so many expenses. According to a recent report from the Insured Retirement Institute (IRI) entitled, "Boomer Expectations for Retirement 2019," members of the baby boomer generation working with financial professionals were three times more likely to have calculated a retirement savings goal, but factoring in expected health and long-term care costs was less common.[1]

Since baby boomers began to transition into retirement, the issue of affording health care has gained traction with financial professionals and future retirees.

Awareness of the issue, but not enough action

Surveys show there is a genuine need for financial professionals and clients to engage in health care planning conversations:

A recent Nationwide Health Care Consumer Survey reveals that among Americans:

39% of millennials, 42% of Gen Xers and 23% of boomers plan to talk to a financial professional about planning for health care costs

Nationwide's Retirement Income Planning Survey reveals that:

98% of financial professionals believe that it is important to discuss health care with clients

72% of clients express concern about funding medical expenses in retirement[3]

Despite these statistics, only 1 in 10 Americans have talked to a financial professional about health care costs in retirement.[2]

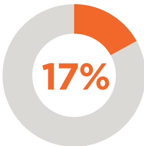
So if both parties recognize there is a problem,

who will make the first move to solve it?

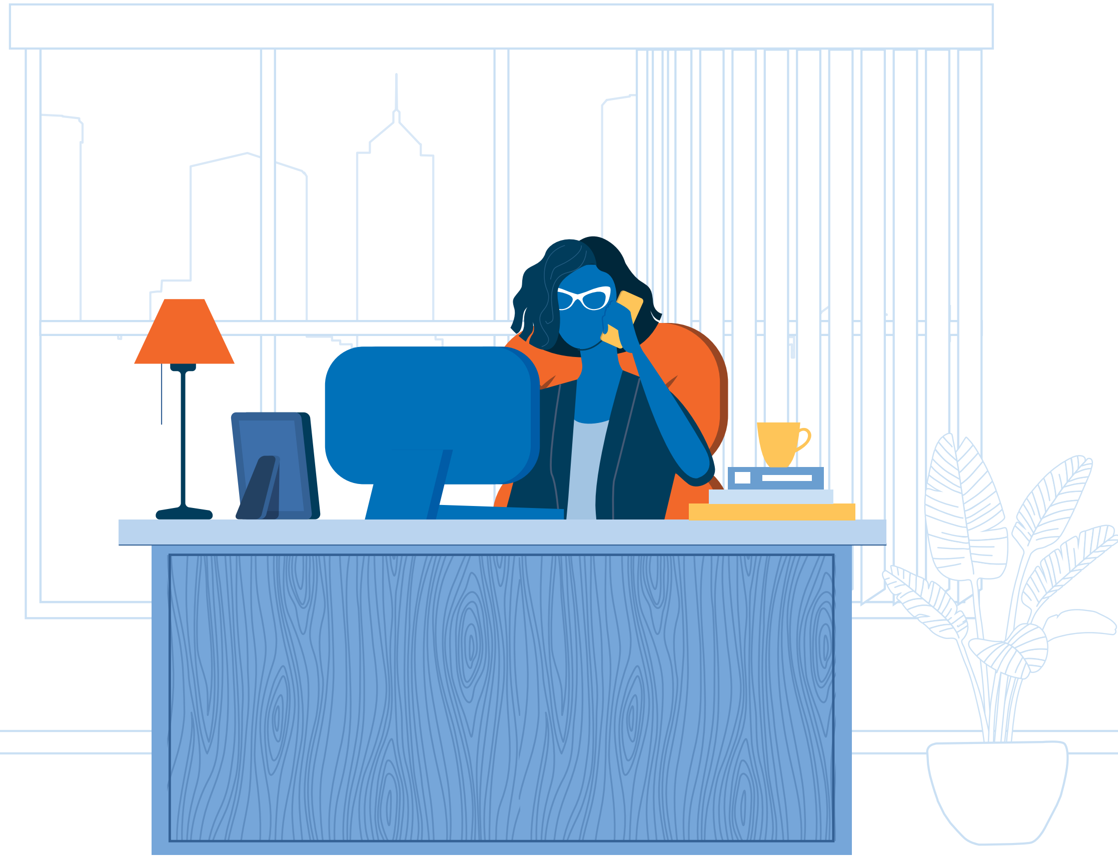
[1] "Boomer Expecations for Retirement 2019," Ninth Annual Update On The Retirement Preparedness of the Boomer Generation, Insured Retirement Institute (April 2019).

[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).



Only 17% of financial professionals are **“very confident”** in their ability to discuss health care.[3]



The financial professional perspective

Most financial professionals believe that health care is a critical component of planning. According to Nationwide’s Income Planning Survey, however, only 17% are “very confident” in their ability to discuss health care, and 11% feel “very confident” in their knowledge on the topic.[3] On the surface, this is understandable, as traditional retirement planning strategies did not include new variables that have emerged. These include life-prolonging medical advances and remarkable health care cost inflation.

Evaluating the role of health care in the planning process

Retirement health care is, for some, a new frontier, and financial professionals may be wondering how to incorporate its components into their existing business practices. Although the list below is by no means all-inclusive, it does provide a general overview of many of the elements that must be understood and addressed in future plans.

Retirement health care inflation
While slightly lower than previous years, retirement health care inflation for a 65-year-old couple entering Medicare in 2019 is 4.22%.[4,5] The number typically grows at twice the general inflation rate, and the compounding effect impacts retirees on fixed incomes who will expect to see medical expenses consume a larger portion of their household budgets every year.[4]

Life expectancy
Perhaps the most important variable, personal longevity impacts total lifetime health care costs, the optimal age to claim Social Security, the potential need for long-term care and more.

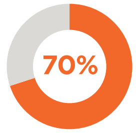
Supplemental insurance
Medicare does not fully cover all services, so an additional policy should be considered to fill in the gaps. This is called supplemental insurance, also referred to as Medigap. The cost of supplemental policies can vary state to state by as much as 49% for identical coverage.[4]

Additional out-of-pocket medical expenses
These additional health care expenses include deductibles and co-pays, as well as “above-the-neck” and “below-the-ankles” costs, such as those related to hearing, vision, podiatry and dental.

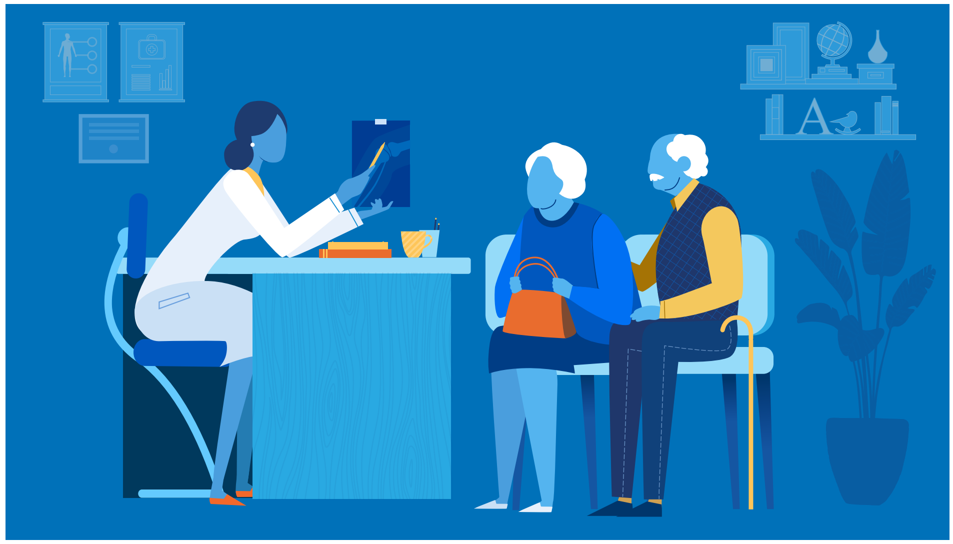
[4] Data has been provided by HealthView Services.

[5] This includes Medicare Parts B and D, supplemental insurance premiums, and dental premiums, plus out-of-pocket costs for hospitalization, doctors, tests, prescriptions, hearing, vision and dental. It is assumed that Part A (hospitalization) premiums are free for most people who funded it through their Medicare tax while employed.

Medicare means testing
This is also known as Medicare's income-related monthly adjustment amount (IRMAA). The Medicare Modernization Act of 2003 contained legislation that imposes surcharges on Medicare beneficiaries based on their income from two years prior (the "two-year look-back"). Basically, it means that the more money a retiree makes, the more he/she pays. Means testing surcharges can increase Medicare Parts B and D premiums by 40% to 240%.[6] They are triggered when modified adjusted gross income (MAGI) in retirement exceeds $88,000 for individuals and $176,000 for couples.[7] Thus, proper planning is necessary years before retirement begins, as capital gains from the sale of a home, for example, can raise one's MAGI and, subsequently, surcharges as well.



A person turning age 65 today has almost a 70% chance of needing some type of long-term care services and support in their remaining years.[8]



Long-term care
According to the U.S. Department of Health and Human Services, someone turning age 65 today has almost a 70% chance of needing some type of long-term care services and support in their remaining years.[8] This care can be expensive, and it is not covered by Medicare. As life expectancies increase for our aging population, millions of Americans may see their hard-earned legacies liquidated to pay for assisted living facilities or nursing home care.

Social Security
Many new Medicare subscribers are surprised to discover that Part B premiums and means testing surcharges are directly deducted from Social Security benefits. In 2021, a single 65-year-old filing for benefits who falls in the second MAGI bracket ($88,000 to $111,000) may experience a 25% reduction (or more) in his/her Social Security income. It is not uncommon for retirees in higher brackets to see Medicare consume 30%, 40% or even 50% of their Social Security benefits, and monthly checks can be far lower than anticipated.

Chronic conditions
Many financial professionals have had little guidance in factoring how specific health conditions, such as diabetes or cardiovascular disease, will affect future medical expenses, and they may feel ill-prepared to address individual clients' specific medical needs.

Determining the right age

Financial professionals may also have difficulty assessing when is the right time to start health care discussions with clients. While a married couple in their late 20s may be focused on a down payment on their first house, a couple in their 40s could be more concerned with saving for their child's college education. Therefore, financial professionals may not be able to judge the right time to broach a topic that most Americans don't prioritize and from which they may be years away.

Offering solutions

Finally, some may feel they cannot offer the optimal product solutions themselves, so they don't engage in the health care conversation. For example, a financial professional may not introduce certain options, such as long-term care insurance or an HSA, because those solutions do not follow his/her business model (such as financial professionals who are fee-only or do not have a CLTC® designation). Nonetheless, recognizing that these practical solutions can help offset retirement medical expenses is important. And financial professionals in these circumstances can add local experts and build a list of referral resources to ensure that clients have multiple funding opportunities.

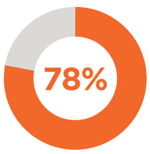
[6] "Part B costs," medicare.gov (accessed Feb. 2, 2021).

[7] It is important to note that ongoing legislation may affect Medicare means testing policies in the future.

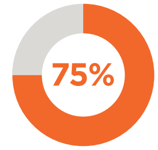
[8] "How Much Care Will You Need?" U.S. Department of Health and Human Services, Administration on Aging, LongTermCare.gov (October 2017).

8 in 10

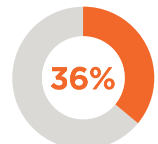
future retirees stated that out-of-control health care costs is one of their top fears.[2]



78% of future retirees wish they understood Medicare coverage better.[2]



75% of future retirees cited health care costs as one of their top concerns about retirement.[2]



However, only 36% plan to talk about it with a financial professional or consultant.[2]

The client perspective

For decades, most retirees had a pretty simple path to a successful and relatively worry-free retirement: Work hard, collect a pension and Social Security, sign up for Medicare and all is well.

Now, the combination of fewer pensions, increased Medicare premiums, higher out-of-pocket costs and lower Social Security cost-of-living adjustments (COLAs) leaves retirees feeling like they're paying more and getting less.

In Nationwide's 2020 Health Care Consumer Survey, 75% of future retirees stated that out-of-control health care costs is one of their top fears.[2]

Medicare misconceptions

Despite knowing that retirement health care has evolved over time, the notion that Medicare will "pretty much cover everything" still exists — so much so that many future retirees have little insight into actual costs, especially in terms of long-term care.

Nationwide's 2020 Health Care Consumer Survey reveals:

- 78% of future retirees wish they understood Medicare coverage better[2]
- 63% incorrectly think Medicare Part B is free after working and paying Social Security taxes for at least 10 years[2]
- 54% incorrectly think Medicare covers long-term nursing home and at-home care[2]
- 53% of future retirees couldn't estimate what their annual health care costs would be in retirement[2]

Ultimately, if clients don't know that paying for health care in retirement could be a problem, they are unlikely to bring it up with their financial professional.

Privacy

Personal health is a sensitive topic that most people avoid, sometimes even with their doctors.

In Nationwide's 2020 Health Care Consumer Survey, when asked about why they hadn't talked about health care with their financial professional, many respondents revealed they felt it was a personal issue, didn't want a financial professional to know about their health or preferred to discuss it with a spouse.[2]

Trust

Another common reason for not discussing health care costs is the perception that financial professionals lack adequate knowledge on the subject. Nearly 40% of older adults who currently work with a financial professional feel the representative does not know enough about health care.[9]

Other priorities

The stress that accompanies retirement medical expenses is palpable. While Nationwide's 2020 Health Care Consumer Survey shows that 3 in 4 future retirees cite health care costs as one of their top stressors in retirement, only 36% plan to talk about it with a financial professional or consultant. Instead, planning conversations are more likely to focus on saving for other retirement goals, including living expenses and travel.[2]

[9] "Nationwide Health Care Consumer Survey," conducted by The Harris Poll on behalf of the Nationwide Retirement Institute (2018).

Empowering financial professionals (and clients)

Understand the basics

Financial professionals may have some level of skepticism and/or apprehension when it comes to discussing retirement health care, which is completely understandable. This is a relatively new domain in financial services, and professionals certainly want to portray themselves as reliable, knowledgeable and attuned to clients' needs.

Fortunately, one does not need to be a Medicare expert to offer accurate and compelling information. Grasping how Medicare, life expectancy, Social Security benefits and long-term care can be weaved into existing business practices is a manageable endeavor, and adding this layer of proficiency provides a strong foundation from which to build a new level of service to current and future clients.

Begin the discussion

Conversations about saving for bucket-list desires, such as a European cruise or buying a vacation home, are much more natural to a retirement planning conversation. And it's far more enjoyable to talk about saving for a trip than paying for blood pressure medication.

Here are some suggestions for introducing the topic of health care costs in retirement:

Start the conversation with kindness.
Let the client know upfront that conversations about life expectancy and end-of-life care are sensitive and difficult but necessary to create a complete retirement plan. Perhaps begin with a simple question, such as, "How much of your health care costs are you responsible for — or will you be responsible for — during retirement?" As stated earlier, most people have no idea that there are many expenses associated with enrolling in Medicare.

Timing the talk: the earlier, the better.
Paying for health care is not a luxury; it is a necessity. Therefore, financial professionals must place the topic at the forefront of all initial conversations with new clients, even the younger ones. And with existing clients, the issue should move to the top of the next meeting agenda. Once clients start asking specific questions, the process will flow naturally because they want answers.

Empathize.
Let clients know that affording quality health care ranks as one of Americans' greatest retirement worries, and they are not alone. Recent polls show that over 75% of Americans admit that health care costs going out of control are a top retirement concern.[2]

Display knowledge on the subject.
In Nationwide's 2020 Health Care Consumer Survey, 78% of future retirees said they wish they understood Medicare coverage better.[2] Spending a moderate amount of time learning about Medicare and its related components — and being able to transfer that knowledge to clients in a simplified and comprehensible way — may help alleviate fears and establish the financial professional as a trusted resource when future concerns arise. It is also prudent to explore additional resources when necessary. For example, Nationwide has a team of consultants on call to assist financial professionals with clients' specific health care needs.

Provide accurate cost estimates.
Independent surveys show that 67% of workers are unable to predict how much they are likely to spend on health care in retirement, including 63% of those living in households with an annual income over $79,999.[10] While many understand the costs associated with traditional planning elements, such as taxes or credit card debt, placing a value on health care remains ambiguous.

Fortunately, data-driven applications, including Nationwide's Health Care Cost Assessment Tool, can provide financial professionals with accurate expense estimates and potential funding solutions for clients.

[10] "The Sorry State of Your Finances Is Costing You Sleep," Jason Notte, thestreet.com (May 14, 2017).

Offer sensible solutions

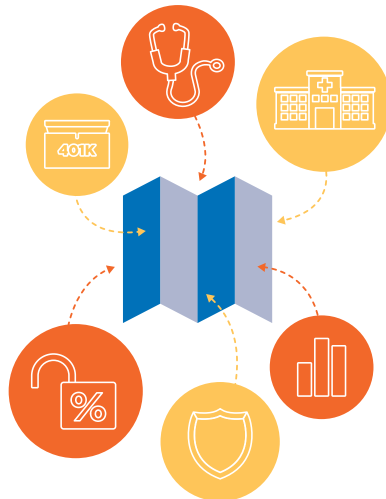
Health care funding and reducing MAGI
After an estimate of future health care costs is made, the conversation should shift to funding strategies. Plenty of investments can grow portfolio assets, but withdrawing income from certain products at the wrong time can lead to an increase in MAGI, causing unnecessary exposure to means testing surcharges.

Health savings accounts (HSAs)
Gone are the days when financial professionals had to concern themselves only with assets they had under control in their brokerage accounts. In the new big-picture environment, financial professionals need to be comfortable broaching a multitude of topics, including work benefits. In fact, one of the first questions a financial professional should ask a client or prospect is, "What health insurance plans are available to you?"

Here's why: Not everyone can open an HSA, because they are accessible only to individuals who are enrolled in high-deductible health plans (HDHPs). Financial professionals need to know a client's benefit options so they can judge whether it makes sense to switch policies to have access to an HSA. The tax benefits may make doing so worthwhile: Money put into an HSA avoids payroll and Social Security taxes; its investments grow tax free; and withdrawals are tax free as long as they are used for qualified medical expenses.[11]

Here are some additional advantages of HSAs:

- Account holders can opt to use other funds (e.g., after-tax cash) to pay for medical expenses incurred before retiring, thereby preserving (and potentially growing) the money in the HSA for use in retirement
- Receipts for expenses paid for with other funds can be submitted later, during retirement, for reimbursement from the HSA
- Withdrawals do not count toward MAGI and thus do not increase Medicare means testing exposure



Roth 401(k)[12]
A Roth 401(k) is also an underutilized investment account that can help lower Medicare means testing exposure. Although variables such as current and future tax rates must be considered when deciding between a Roth and a traditional investment account, financial professionals must be able to explain how future health care costs can impact the decision. This is another situation in which the financial professional may need to ask the client about what types of retirement plan options are available through his/her employer.

There are several benefits to a Roth 401(k). Anyone can invest, regardless of income. Investments grow tax free. Withdrawals are tax free after age 59½. And earned income does not increase MAGI. Unfortunately, many employers still do not offer this option, and for those that do, the employee participation rate is under 15%.[13]

Roth IRA[12]

Unlike a Roth 401(k), a Roth IRA is not available to higher earners unless it is acquired by conversion. For some clients, a conversion could make sense as a means to reduce future RMDs on a traditional IRA or 401(k). A client who has the means to pay the tax owed on the conversion — and who can allow enough time before retirement to regrow assets tax deferred — could potentially reduce taxes and avoid higher Medicare premiums down the road.

Nonqualified annuity
A nonqualified annuity is another product that financial professionals can consider for health care funding. Portions of the income withdrawn from the annuity that count toward the exclusion ratio do not increase MAGI. The exclusion ratio — calculated by dividing the premium by the expected return — is the part of an annuity payment that is excluded from gross income and thus not subject to ordinary income tax. The exclusion ratio applies to an immediate annuity or an annuitized variable annuity. A variable annuity is taxed on a last-in/first-out (LIFO) basis.

Retirement-based insurance funding
Wealthier individuals who may not be eligible for a Roth IRA may choose to overfund a whole life or universal life policy. This strategy, if done properly, not only offers affluent retirees a safe place to invest (tax deferred) beyond their 401(k) contributions, but it also lets them withdraw to basis or take out loans against the policies without increasing MAGI.

Life Insurance with long-term care options
To minimize the impact of long-term care costs later in retirement, clients should evaluate the difference in facilities by state, consider purchasing long-term care insurance or add riders to existing annuity and life insurance products.

[11] HSAs are not taxed at a federal income tax level when used appropriately for qualified medical expenses. Also, most states, but not all, recognize HSA funds as tax free. Please consult a tax advisor regarding your state's specific rules.

[12] Anyone considering these products should consult with a tax advisor.

[13] "Rethinking the Roth 401(k)," Matt Bell, soundmindinvesting.com/articles/view/rethinking-the-roth-401k (May 20, 2019).

A growing expense, a fixed income

David Harris is a Vice President of the Nationwide Retirement Institute and has been focused on retirement income planning professionally since 2007.

I know firsthand the importance of planning for health care expenses.

My father worked for a large automaker and was provided with supplemental coverage upon retirement. My mother was a teacher and had great benefits. After they stopped working, health care expenses were minimal, and they felt confident that they could enjoy a stable and worry-free retirement.

Six years later, the company restructured, and Dad lost his insurance, so my parents started researching Medicare premiums, supplemental coverage, and how much money they would need to afford the care they had enjoyed while working. They learned that health care is the third-largest expense in retirement, and the lump sum required to cover total care was — to put it mildly — terrifying. It was more money than they had in their entire portfolio.

At this point, my parents realized they were at risk, and the amount of doctor visits, procedures, services and medications they'd require would directly impact their income. As their health deteriorated over time, paying for care became more difficult. To put this into perspective, when my father retired, he was taking one medication for high cholesterol; by the end of his life, he had to cover co-pays for 14 medications. On a fixed income, they simply were not prepared for this ever-growing expense.

Changes in patient services and health care technology are altering the structure of expenses. Several years ago, when Mom needed a knee replacement, the co-pay and deductible were manageable because the surgery was performed in a hospital and covered by Medicare Part A. Today, some procedures (such as a knee replacement) are done in an outpatient location and fall under Medicare Part B, which carries a much larger deductible: 20%.

These are issues clients want to know about but don't know who to ask.

Fortunately, starting the conversation today is easier than ever before, as many clients have probably witnessed a parent or loved one face the financial burden of high medical costs, just as I did.

During my time in health care planning, I have discovered that financial professionals recognize the need to conduct a comprehensive assessment of a client's needs in order to prepare them for what to expect in retirement. The primary reason financial professionals are not having health care conversations is because they don't know the topic in as much depth as other retirement topics. I encourage them to use Nationwide as a resource for their own education and to obtain support with individual cases.

Based on my personal and professional experience, health care expenses are a significant risk and should be incorporated into all retirement plans. Therefore, it is up to the financial professional to become as educated as possible on the topic. Numerous resources are available, such as the Nationwide Retirement Institute field team and their seminars, as well as the Nationwide Retirement Institute Planning Team, who can help you develop effective strategies that aim to address a client's health care expenses.

A good way to begin cost-of-living discussions is to make a "spending plan" for a client's retirement. This will allow you to naturally bring up the topic of month-to-month spending on health care. Going a step further, you may want to incorporate a personal story (if possible) to show that you understand the fears associated with affording quality care, which may give your clients the confidence to open up and entertain the idea of including health care costs in their spending plans.

A CLIENT SCENARIO: GREG AND ROBERTA[14]

The impact of avoidance

Let's examine the case of Greg and Roberta, a healthy pair of 55-year-olds who have not discussed paying for health care with their financial professional, Monica.

Greg and Roberta are planning to retire in 10 years. With Greg's pension, their joint investments, projected Social Security benefits and rental income from a small condominium, the couple is projected to live on approximately $185,000 per year at age 65. Based on an 80% income replacement ratio, Greg and Roberta believe that they are fairly well prepared for a financially stable and worry-free retirement for the next 20 years, because Monica used 85 as the estimated age for their plan.

Unfortunately, they have not factored actuarial life expectancy and health care costs into their budget.

Medicare premiums

As mentioned earlier, retirees who step out of employee-sponsored coverage and into Medicare incur new types of medical expenses. Greg and Roberta will have to pay $233,173 over 20 years in premiums for Medicare Part B (which covers doctors and tests) and Part D (which covers prescription drugs).

Cost	Current total	Avg. annual
$233,173	$233,173	$11,659

Supplemental insurance

If the couple wants to approximate coverage from Roberta's former employer, they will have to purchase supplemental insurance. They choose Plan G, which is the most comprehensive plan available today.

Added cost	New total	Avg. annual
+$144,197	$377,370	$18,868

Out-of-pocket costs

Aside from Medicare Part B, Part D and a supplemental policy, Greg and Roberta will have to pay deductibles and co-pays for hospitalization, doctor visits, tests and prescription drugs, as well as all costs related to dental, hearing and vision.

Added cost	New total	Avg. annual
+$184,990	$562,360	$28,118

Cost variance by state

It is important to remember that the cost of supplemental insurance and Part D plans varies by state. Many retirees may not remember to factor this into their financial plans. If Greg and Roberta decide to move from their home state of Delaware to retire in Florida, lifetime costs will rise.

Added cost	New total	Avg. annual
+$25,633	$587,993	$29,400

Medicare means testing

As noted above, the couple plans to generate approximately $185,000 in annual retirement income, which places them in the second means testing bracket and adds over $74,000 in lifetime surcharges to their Part B and D premiums.

Added cost	New total	Avg. annual
+$74,221	$662,214	$33,111

Life expectancy in relation to expenses

Longevity can come at a cost, and living beyond a predicted age may present its own set of financial challenges. If Monica uses a baseline of 85, but Greg and Roberta live to their actuarial-projected ages of 88 and 90, respectively, they will face eight extra years of unplanned medical expenses.

Added cost	New total	Avg. annual[15]
+$218,475	$880,689	$44,034

[14] All data in the case study is provided by HealthView Services and is based on 2019 Medicare and supplemental premiums.

[15] This reflects the average during years in which they are both living.

Long-term care

Because of its inherently morbid implications, many Americans either choose to ignore long-term care or — without realizing the exorbitant expense — believe they can fund it on their own. Adding one year of nursing home care for each spouse (which is very possible, considering their longevity projections) will significantly inflate the couple's end-of-life costs.

Greg and Roberta's estimated long-term care costs by level (one year of care)

	Informal care	Home health care	Assisted living	Skilled nursing
	Paid caregiver or loved one who assists with activities of daily living (ADLs), such as dressing or bathing	Services that can be administered in the home by a medical professional, such as a traveling nurse; probably includes ADL assistance too	Sometimes referred to as residential care; some skilled services are needed, such as redressing bandages	Medically necessary; requires a residential stay and continual daily assistance
Greg at 88	$80,396	$132,928	$131,280	$237,809
Roberta at 90	$85,292	$141,024	$139,275	$252,291

Skilled nursing cost	Potential total
+$490,100	**$1,370,789**

If unprepared, Greg and Roberta may not have the means to choose how they receive their long-term care, or they may have to ask friends and family for unpaid help. They may also have to liquidate assets to pay for a facility, reduce the inheritance of surviving family members and/or watch a nursing home consume a lifetime of their savings.

Additional variables to consider

Chronic conditions
As a healthy couple who may avoid chronic conditions and costly health events, Greg can anticipate a life expectancy of 88 years and Roberta, 90. Year-to-year, their out-of-pocket medical expenses are expected to be minimal because they have supplemental insurance. However, if each contracted Type 2 diabetes, Greg's life expectancy would drop to 78 and Roberta's to 80, and their year one out-of-pocket expenses could increase by 69%.

Life expectancy in relation to Social Security
Social Security is designed to be an actuarial-equivalent program, meaning that if one lives to his/her average life expectancy, the claiming age doesn't really matter — the total benefits would even out.

Data reveals that those with chronic conditions are projected to have shorter life spans; therefore, it may make little sense for someone expected to live until 75 to wait until 70 and collect for only five years.

Conversely, a healthy individual projected to live to 89 who claims at 62 may reduce their lifetime benefits.

Living to 88 and 90, Greg and Roberta's optimal claim ages are each 70, but if they were to live to 78 and 80, their optimal claim ages would be 68 and 65.

Exploring financial professional solutions

Let's turn the tables for a moment and assume that Monica, the couple's financial professional, confidently opens the door to health care planning. After she provides Greg and Roberta with their cost projections, Monica can pivot the conversation to funding, for which they have 10 years to prepare. Although Monica may utilize a number of investments during the accumulation phase to directly fund Medicare premiums and out-of-pocket costs, she needs to pay close attention to product choice so Greg and Roberta's MAGI does not increase their Medicare means testing exposure during distribution.

Here are several possible strategies Monica could employ (though a combination of others could work):

Traditional investment

At age 55, a one-time investment of $245,943 could cover all unfunded health care costs (not including Part B premiums, which will come from Social Security deductions), assuming a hypothetical 6% annual rate of return.

At this time, Monica should relay the importance of action. If Greg and Roberta wait five years, they would have to add another $64,555 — for a total of $310,498 — to cover these costs. Had this investment been made five years prior, the total would have been $194,507.

Monica can recommend traditional investment products based on the couple's risk tolerance and time horizon.

HSA tax savings

Because they are healthy, they may consider moving to a high-deductible health plan during open enrollment to take advantage of the triple tax savings of HSAs. Roberta may contribute up to $8,000 per year for the couple (they are on her employer's medical plan), which can generate an additional $122,705 in savings by the time they are 65 (assuming they don't use the HSA funds while still working and receive a 6% annual rate of return).

OR: If the HDHP option is unavailable, she may consider an annuity, which can guarantee lifetime income and offer the flexibility of using funds for non-health-related expenses.

Roth conversion

Monica could review the couple's 401(k) plans and IRAs to see if they can benefit from a Roth. Then she could perform a careful analysis to determine whether a Roth conversion makes sense. If they're eligible, Greg and Roberta may choose to maximize their annual contribution every year.

This could be a resourceful strategy, especially in terms of reducing MAGI. The couple is currently projected to exceed the $176,000 MAGI threshold; if they are able to adjust their investments to remain in the first bracket, they could save almost $75,000 through retirement.

OR: If a Roth does not work, Monica could again stress that the couple should still take action sooner rather than later because the cost of waiting, as mentioned earlier, can be substantial.

Long-term care coverage

Once assets are earmarked for future medical expenses, Monica could address long-term care. Strategies may include a long-term care policy or life insurance that has a long-term care rider.

OR: The couple also has the option to fund long-term care in the same way that they addressed health care costs: through a lump sum in a traditional investment product.

Conclusion: It’s up to the financial professional

In the ever-changing world of financial planning, successful professionals must adapt their business practices to meet clients’ evolving needs. Many retirees are living longer and are going to need a considerable amount of guidance to be able to afford quality care as they age, and they are looking to their financial professionals for answers.

The idea of having to tackle the complexities of retirement health care may feel daunting to some clients and unnecessary to others. Regardless, the proof is in the data. Americans are stressed about future medical expenses, and they do not require a Medicare expert to save the day. What they do need is a knowledgeable financial professional who understands the big picture and is willing to start the discussion.

Health conditions and future medical expenses aren’t typical water-cooler conversations. They are private and sometimes uncomfortable topics that individuals tend to keep among spouses or family members. Breaking down and integrating these three domains into a comprehensible financial plan that clients can understand is no easy task. However, financial professionals may boost client confidence if they:

- Establish a comfortable and sharing environment
- Showcase their knowledge and experience
- Offer tangible solutions

This approach promotes lasting relationships and confidence in those clients who are anxious about affording quality health care in retirement.

Get free support and client-ready resources that can help get the health care conversation started.

Call the Nationwide Retirement Institute® Planning Team at **1-877-245-0763.**

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