

# Health Care Cost Evaluation

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SUMMARY

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## How do I plan for rising health care costs once I retire?

The good news is that on average Americans are living longer, fuller, more vital lives than ever before thanks to healthier lifestyles and better medical care. Unfortunately, longevity also means higher health care spending for most people. Today, individuals are responsible for a growing share of those expenses for themselves and, in many cases, their parents. It should come as no surprise that even wealthy individuals often view rising health care costs as one of the most significant threats to their financial security. A Financial Advisor can help you estimate your medical and health care expenses and show you how to plan for these costs so that you will be better prepared to meet them.

Morgan Stanley takes a holistic view of planning for retirement. In considering how health care costs might impact your retirement plan, here are some questions that you should answer first:

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How much funding will I need for health care during my senior years?

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Will Medicare cover all my health care needs?

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What about private insurance options?

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What is long-term care insurance?

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## Three types of insurance are available to individuals and families: employer-provided insurance, government insurance and private insurance.

### Q. How much funding will I need for health care?

**A.** According to the Health Cost Institute, the cost of future health care needs for a typical married couple age 65, expected to live an additional 20 years, is \$292,800 (\$146,400 for an individual). That amount includes health care costs not paid for by the federal government through Medicare. If they live until 90 (an additional 25 years), that amount jumps to \$441,200 for the couple (\$220,600 for an individual).<sup>1</sup>

For those unfortunately struck by certain chronic conditions like cancer or circulatory issues, health care costs not covered by Medicare can easily exceed \$300,000.<sup>1</sup>

Costs jump even more when nursing home expenses are factored into the calculations. While routine visits to the doctor, hospitalization and emergency medical situations are covered by health insurance and Medicare, ongoing long-term care typically is not. And the sticker shock can be shocking. In 15 years, an individual can expect to pay nearly \$900,000 for five years of private nursing home care and over \$1.5 million for the same care in 30 years.<sup>2</sup>

It's estimated that 70% of those over age 65 will need some type

of long-term care.<sup>3</sup> Unlike other big-ticket items — such as buying property or paying college tuition — health care expenses can strike anytime. Moreover, health-related costs are rising: The rate of health care spending, with a few exceptions, has outpaced inflation over the past 20 years. Planning now can make a difference in how prepared you will be to handle those costs when they arise.

### Q. What types of health coverage are available?

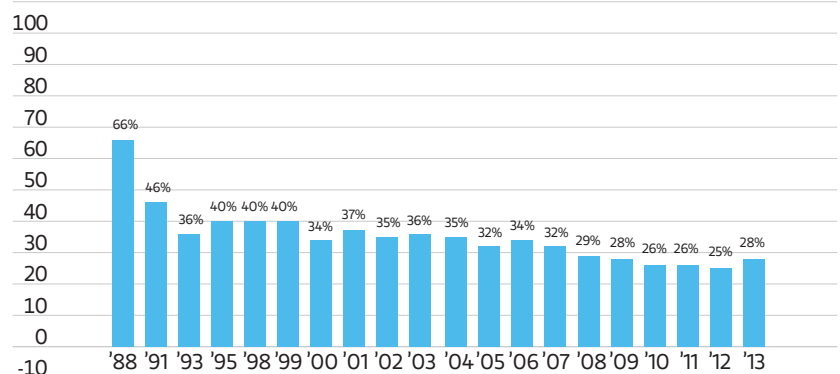
#### A. Employer-Provided Insurance

Optimally, the foundation for your health coverage should be employer-provided insurance. Compared with the private insurance alternative, employer-based coverage remains a bargain — even after taking into account premiums, deductibles, prescription-drug and copay charges. The advantages of remaining in the plan may be so attractive that you may want to consider delaying retirement.

If you are changing employers, sign up for the new plan immediately. Large group plans often have no limitations on a preexisting condition if you sign up within a given period after becoming an employee. Additional charges or limitations may apply if you wait for the annual enrollment period before joining the plan.

The government's COBRA (Consolidated Omnibus Budget Reconciliation Act of 1986) provides safeguards for workers and their immediate families. If you're between jobs, it allows you to maintain health care coverage for 18 to 36 months after working, depending on your and your beneficiary's circumstances. You and/or your immediate

### Percentage of Employers Providing Retiree Health Coverage



Note: Includes large firm with 200 or more workers. Data not available for all years between 1988 and 1998 because survey was not conducted each year during that period.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2013; KPMG Survey of Employer-Sponsored Health Benefits, 1991, 1993, 1995, 1998; The Health Insurance Association of America (HIAA), 1988.

family members may enroll in COBRA in the event of any of the following “qualifying events”:

- Death of the covered employee;
- Termination or reduction of hours due to resignation, discharge, layoff, strike or other cause;
- Divorce or legal separation (which ordinarily terminates an ex-spouse’s coverage); or
- A dependent child reaches an age or status for which coverage is excluded.

As you approach retirement, stay abreast of your options, which are in flux. The share of large employers providing health coverage to their retirees has shrunk to 28% in 2013 from 66% in 1988, according to a 2013 Kaiser Family Foundation survey of employers. This trend is likely to continue. If you are at least 63½ years old and want to retire early or are terminated by your employer, you can use COBRA to continue coverage as a bridge to Medicare. You will have to pay out-of-pocket for the coverage, but your cost is still likely to be cheaper than buying comparable private insurance. Once you have COBRA, you should still enroll in Medicare Parts A and B, since your health insurance under COBRA typically ends once you become eligible for Medicare.

### Private Insurance Options

As employers reevaluate the level of health care insurance they offer, you may find yourself without coverage should you stop working before age 65, when you would become eligible for Medicare. The same could be true if you work for a small business that does not provide insurance, start your own business or need to supplement for services such as dental and vision, which are not covered by Medicare.

Private insurance is an option. If you’re in good health, you may be able to obtain relatively inexpensive private health insurance. The federal government’s new health care website helps you find and compare the prices and benefits of private insurance policies. It provides information on more than 4,000 plans across the country from

about 225 insurers, and tells you the percentage of applicants rejected by each plan and the percentage of applicants who pay a surcharge because of a medical condition. For more information, go to: <http://www.healthcare.gov>.

Another option is to speak to an insurance broker or your Financial Advisor. In reviewing your choices, keep in mind:

- Premiums tend to be high, while benefits are less generous than those of an employer-sponsored group plan.
- Pricing for individual plans, will be based on age, health and other factors and will vary depending on the state where you reside.
- Private insurance plan premiums generally rise as you age, taking a bigger bite out of your retirement savings (assuming you need private insurance to pay for those expenses not covered by Medicare).
- Until recently, private policies could be cancelled or nonrenewed by insurance companies in certain medical circumstances; consideration should be given to the possibility that current federal law forbidding such actions could be revoked legislatively or voided by US courts, which have appeals pending.

### Government Insurance

While their names may sound similar, Medicare and Medicaid are very different programs. Medicare is a federally governed health insurance program aimed

mainly at the elderly, while Medicaid is a state-run health insurance program for people and families of limited means. Some people may qualify for both programs. Understanding the basics of each program—and the services they cover—is important in planning for your health needs in retirement.

### Medicare: The Cornerstone of Health in Retirement

Medicare is the cornerstone of the federal government’s effort to provide health insurance for people beginning at age 65, under 65 with certain disabilities, and at any age for those with permanent kidney failure. Individuals are eligible for Medicare if they or their spouses have worked for a minimum of 10 years in Medicare-taxed employment (including self-employment), are age 65 or older, and are citizens or permanent residents of the US.

If you and your spouse are different ages, you won’t be able to go on Medicare at the same time. If you have other insurance, it can be used to complement your Medicare coverage and reduce your out-of-pocket costs.

<sup>1</sup> Source: “Health Care Costs From Birth to Death,” June 2013 ([http://www.healthcostinstitute.org/files/Age-Curve-Study\\_0.pdf](http://www.healthcostinstitute.org/files/Age-Curve-Study_0.pdf)).

<sup>2</sup> Source: Genworth 2014 Cost of Care Survey.

<sup>3</sup> U.S. Department of Health and Human Services, National Clearinghouse for Long-Term Care Information, [www.longtermcare.gov](http://www.longtermcare.gov), June 2014.

## The ABCs of Medicare, Medigap and Medicaid

About 90% of Medicare beneficiaries have supplemental health insurance coverage that helps pay Medicare's cost-sharing requirements and often provides services not covered by Medicare.

### The ABCs and “D” of Medicare

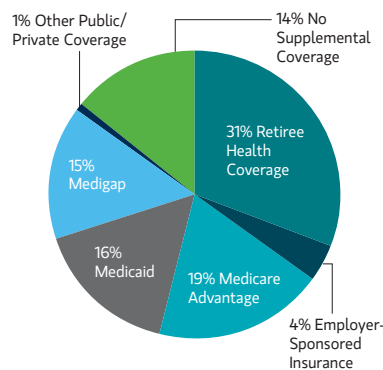
Medicare actually consists of several parts, each representing coverage for different services, as discussed below.

Medicare Part A helps pay for the inpatient care you receive in a hospital, skilled nursing facility or hospice, and for home health care if you meet certain conditions. Most people don't pay a monthly premium for Medicare Part A because they or their spouse paid Medicare taxes while working in the US. Even if you don't automatically qualify for premium-free Part A coverage, you still may be able to enroll in the program by paying a premium.

Medicare Part B helps pay for medically necessary doctors' services and other outpatient care. It also pays for preventative services such as flu shots to help maintain your health and some services that keep certain conditions from worsening. Most people pay a standard monthly premium for this coverage. As of January 1, 2014, this monthly premium ranges from \$104.90 to as high as \$335.70, depending on your income level.

If you're already receiving Social Security benefits when you turn 65, you are automatically enrolled in Medicare Parts A and B even if you have employer-sponsored or private health insurance. If you're not receiving Social Security when you turn 65, you will not be automatically enrolled in Medicare. You may apply during the initial enrollment period, which begins three months before you turn 65 and ends three months after. If you do

### Nearly one in three Medicare beneficiaries has supplemental Medicare coverage



Notes: Supplemental coverage was assigned in the following order: 1) Employer-Sponsored Insurance and Retiree Health Coverage, 2) Medicare Advantage, 3) Medicaid, 4) Medigap, 5) Other public/private coverage, 6) No supplemental coverage. Individuals with more than one source of coverage were assigned to the category that appears highest in the ordering.

Source: Kaiser Family Foundation, Retiree Health Benefits at the Crossroads, April 2014.

not enroll, you must register during a general enrollment period, which takes place from January 1 to March 31 of each year. Coverage for that year will then commence on July 1.

Waiting beyond the initial enrollment period may subject you to a penalty. However, if you and/or your spouse are still working when you turn 65 and have coverage through an employer, you may be able to delay enrolling in Parts B and D without incurring an enrollment penalty.

Medicare Part C (often referred to as Medicare Advantage) gives beneficiaries the option to receive their Part A and Part B benefits through a Medicare-approved private insurance company. In addition to the normal Parts A and B benefits to which you're entitled, the plans provide additional services that may include vision, hearing, dental and, often, health and wellness programs as well. You pay a monthly premium, and copayments are usually less than the coinsurance and deductibles under the original Medicare plan. Medicare Advantage Plans aren't supplemental coverage. Most include Medicare prescription drug coverage.

Medicare Part D, introduced in 2006, adds prescription drug coverage. The plans are offered through private insurance companies that are approved by Medicare, with costs and benefits varying by insurer. A downside was a gap in coverage for some individuals, known as the “donut hole.” This was addressed in the Affordable Care Act of 2010. By 2020, you'll pay only 25% for covered brand-name and generic drugs during the gap — the same percentage you pay from the time you meet the deductible (if your plan has one) until you reach the out-of-pocket spending limit (up to \$4,550 in 2014, and up to \$4,700 in 2015).

To get Medicare drug coverage, you must join a plan run by an insurance company or other private company approved by Medicare. Each plan can vary in cost and drugs covered. For more information please go to <http://www.medicare.gov>.

## Medicare B Premium Costs

If your yearly income in 2012 (for what you pay in 2014) was:

FILE INDIVIDUAL TAX RETURN	FILE JOINT TAX RETURN	FILE MARRIED & SEPARATE TAX RETURN	MONTHLY PAYMENT (IN 2014)
\$85,000 or less	\$170,000 or less	\$85,000 or less	\$104.90
above \$85,000 up to \$107,000	above \$170,000 up to \$214,000	Not applicable	\$146.90
above \$107,000 up to \$160,000	above \$214,000 up to \$320,000	Not applicable	\$209.80
above \$160,000 up to \$214,000	above \$320,000 up to \$428,000	above \$85,000 and up to \$129,000	\$272.70
above \$214,000	above \$428,000	above \$129,000	\$335.70

Source: <http://www.Medicare.gov>, 2014.

### Medigap: Filling the Holes in Medicare Coverage

Out-of-pocket expenses for Medicare can add up. Part A has an annual deductible of \$1,216 for a hospital stay from one through 60 days, and it has higher copayments for longer convalescences. Part B carries an annual deductible of \$147, and beneficiaries must pay 20% of the Medicare-approved amount for any covered services.

Medigap (or “Medicare Supplement Insurance”) is private insurance designed to fill in the gaps in Medicare. It helps pay for such costs as copayments, coinsurance and deductibles.

Some Medigap policies also offer coverage for services that original Medicare doesn’t cover, like medical care when you travel outside the US.

For a more complete description of Medigap plans, go to <http://www.medicare.gov>.

### Expanding Health Care: Medicaid and Children’s Health Insurance Program (CHIP)

Medicaid and CHIP are joint federal and state programs that provide help with medical costs to individuals and families with low incomes who have limited means and assets. Although

benefits vary from state to state, the Medicaid program covers all types of care, paying for deductibles and services not covered by Medicare.

The Affordable Care Act expanded Medicaid coverage to millions of low-income Americans and makes numerous improvements to both Medicaid and the Children’s Health Insurance Program (CHIP). Medicaid and CHIP enrollment is year-round and is not subject to an open enrollment period. Eligible individuals can enroll at any time and get coverage right away.

For more information, visit <http://www.medicaid.gov>.

## 10 Steps to Selecting an Elder Care Attorney

As America ages and baby boomers begin to retire in greater numbers, the demand grows for attorneys who know the laws and regulations that affect the elderly. Elder care attorneys provide advice in a number of areas, including: preservation/transfer of assets to avoid spousal impoverishment; Medicaid; Medicare claims and appeals; Social Security disability; health care proxies; living wills; powers of attorney for health care and finances; long-term care and/or general insurance; plans in the event of incapacity; and trusts and wills.

Here are 10 steps for finding a lawyer who specializes in elder care:

**1. Identify prospective attorneys.** Seek advice of friends, colleagues and others who work with elder care attorneys. AARP, the state bar association, the local Agency on Aging and the National Academy of Elder Law Attorneys may also help pinpoint candidates.

**2. Screen candidates.** Schedule interviews. Find someone you're comfortable with and who is responsive to your needs.

**3. Determine the attorney's qualifications and insist on references.** Ask basic questions: What percentage of your practice is devoted to elder care law? What areas do you specialize in?

**4. Take into account the network of professionals.** Elder care attorneys do not act in a vacuum. The approach involves a team of specialists, which requires a holistic approach.

**5. Discuss fees.** You want a reasonably priced attorney and a manageable fee schedule. Ask for a copy of the lawyer's retainer agreement and have the document explained to you.

**6. Ask for references.** References should address relevant questions such as the following: Was the lawyer skilled and trustworthy? Was the attorney proactive and a good advocate?

**7. Prepare for a follow-up interview.** Make a list of follow-up questions, focusing on specific areas you wish to address. Bring your relevant personal documents.

**8. Address specifics.** Ask the attorney to present an approach to any area of concern that you have; the plan should make sense to you.

**9. Choose your elder care attorney.** Use your common sense, picking someone with whom you're comfortable and who has the skills and network of professionals to address your issues.

**10. Put it in writing.** A written agreement can protect your interests.

## Long-Term Care Insurance

Long-term care insurance is coverage designed to help pay for the costs of services such as assistance with daily living activities and care in a variety of nursing home and community settings not covered by Medicare or traditional health insurance policies. According to LongTermCare.gov, someone turning age 65 today has almost a 70% chance of needing some type of long-term care services. And about 20% of those will stay there five years or more. By covering some of the costs, long-term care insurance can help protect your

retirement savings. It can help reduce your dependence on family members and give you greater control over the services you receive.

Long-term care insurance rates are based on the type and amount of services, your age when you purchase the policy and any additional options you select, such as inflation protection. Typically, a policy can help cover the cost of in-home health aides, adult day-care programs, assisted-living facilities and nursing-home care. If you are in poor health, you may not qualify for

long-term care insurance or may be limited in the coverage you can buy, and the cost of the premiums may be higher.

Long-term care insurance policies have a set benefit period or lifetime benefit maximum. Common benefit periods for long-term care policies are two, three, four and five years, as well as lifetime or unlimited coverage (although there are fewer insurance companies willing to offer lifetime policies). You can tailor your coverage to match what you can afford and think you'll need.



## Other Sources of Funding

Since an accident or illness can be financially catastrophic, the costs of insurance are always preferable to having to pay out-of-pocket for health care. However, there are other ways beyond insurance to supplement health care costs, such as health savings accounts.

### Health Savings Accounts: A Tax-Favored Strategy for Health Care Savings

With health care costs rising, high-deductible health plans (HDHPs) have grown in popularity as employers try to cap expenses while still offering health care protection. HDHPs are best suited to people who are healthy and currently have little need for frequent health care, but who still want the security of coverage. Since HDHP deductibles are high, premiums are lower — sometimes 45% less than traditional insurance.

To help consumers pay for higher deductible plans, the federal government enacted legislation that lets people establish a tax-advantaged account called a Health Savings Account (HSA), which is designed to supplement an HDHP. The account offers significant advantages for people in higher tax brackets, with the HSA functioning like a “medical IRA,” in the sense that annual contributions are tax-deductible — as is true with an IRA. An HSA then allows tax-free withdrawals for qualified medical expenses. An HSA can be used to pay for health care that

traditional insurance might not cover. Also, it is fully portable — meaning you can keep your account even if you change jobs or medical coverage, become unemployed, move to another state or change your marital status.

If you are not yet retired, you may consider setting up an HSA. To qualify, you need to enroll in an IRS-approved HDHP. Check with your employer’s insurance agent or benefits department to see if they offer such a plan. You can also contact your state insurance department to find insurers qualified to sell these plans in the state where you reside.



#### HSA ELIGIBILITY CHECKLIST

You may be eligible to set up an HSA if you:

- Currently have or will switch to a high-deductible health plan (HDHP) that meets IRS requirements. (Remember that HDHPs may not be appropriate for everyone.)
- Are not covered by other health insurance.
- Are not enrolled in Medicare.
- Are not claimed as a dependent on another person’s tax return.

## 2014 Deductible and Contributions Limits

HSA annual contribution limits	Single: \$3,100    Family: \$6,550
HSA catch-up contributions	\$1,000 per person over age 55
Minimum HDHP deductible amounts	Single: \$1,250    Family: \$2,500
Maximum HDHP out-of-pocket costs	Single: \$6,350    Family: \$12,700

Source: <http://www.hsacenter.com/2014limits.html>

To lock in a lower premium — and improve your chances of qualifying — it’s best to buy long-term care insurance when middle-aged before age and health issues strike and make the cost of a policy prohibitive. There are limited federal tax deductions that may help toward paying for long-term care premiums (see table). Your Financial Advisor can provide information and assistance with the long-term care policies we offer.\*

\* Long-term care insurance is offered in conjunction with Morgan Stanley’s licensed insurance agency affiliates.

## 2014 Long-Term Care Insurance Federal Tax Deductible Limits

Limit 40 or less	\$370
More than 40 but not more than 50	\$700
More than 50 but not more than 60	\$1,400
More than 60 but not more than 70	\$3,720
More than 70	\$4,660

The yearly maximum deductible amount for each individual depends on the insured’s attained age at the close of the taxable year. These deductible maximums are indexed and increase each year for inflation. Source: IRS Revenue Procedure: 2013-35 via The American Association for Long-Term Care Insurance (<http://www.aaltci.org>).

## 2014 Medicare Services and Out-of-Pocket Costs

### PARTS OF MEDICARE AND COVERED SERVICES

### OUT-OF-POCKET COSTS

Part A	
Hospital Inpatient Stay	<p>\$1,216 deductible and no coinsurance for days 1-60 each benefit period.            \$304 per day for days 61-90 each benefit period.            \$608 per "lifetime reserve day" after day 90 each benefit period (60 days maximum).            All costs for each day above lifetime reserve days.            Inpatient mental health care in a psychiatric hospital limited to 190 days in a lifetime.</p>
Skilled Nursing Facility Stay	<p>\$0 for the first 20 days each benefit period.            \$152 per day for days 21-100 each benefit period.            All costs for each day after day 100 in a benefit period.</p>
Hospice care	<p>\$0 for hospice care.            A copayment of up to \$5 per prescription.            5% of the Medicare-approved amount for inpatient respite care.            (Medicare doesn't cover room and board when you get hospice care in your home or another facility such as a nursing home).</p>
Home health care	<p>\$0 for home health care services.            20% of the Medicare-approved amount for durable medical equipment.</p>
Part B	
Premium	\$104.90 to \$335.70.
Deductible	\$147 yearly.
Clinical laboratory services	No cost for Medicare-approved services.
Home health services	No cost for Medicare-approved services.
Durable medical equipment	20% of Medicare-approved amount for durable medical equipment.
Medical and other services	20% of the Medicare-approved amount for most doctor services (including most doctor services while you're a hospital inpatient), outpatient therapy and durable medical equipment.
Mental health services	<p>No cost for yearly depression screening if health care provider accepts assignment            20% of Medicare-approved amount for diagnosis or treatment.</p>
Outpatient hospital services	Coinsurance or copayment; the copayment for a single service cannot exceed the amount of the inpatient hospital deductible.
Part D	
Premium	\$31.17 National Base Beneficiary Premium for 2013 (latest available). Varies by plan.
Deductible	<p>\$310 standard plan:            — 25% of the next \$2,540 (\$635).            — 100% of the next \$3,605 in formulary drugs, subject to a brand discount of 52.5% or a generic discount of 28%.            — 5% of the cost of formulary drugs (or \$2.55 for generics and \$6.35 for brand-name drugs, whichever is greater) once the beneficiary has spent a total of \$4,550 of true out-of-pocket costs.</p>

Source: <http://www.medicare.gov>, 2014; and Center for Medicare Advocacy (<http://www.medicareadvocacy.org>), 2014.

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