

Planning for Health Care in Retirement

A guide to covering your medical expenses

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FIDELITY INSTITUTIONAL ASSET MANAGEMENT®



Agenda

- **Gain insight into health care costs**

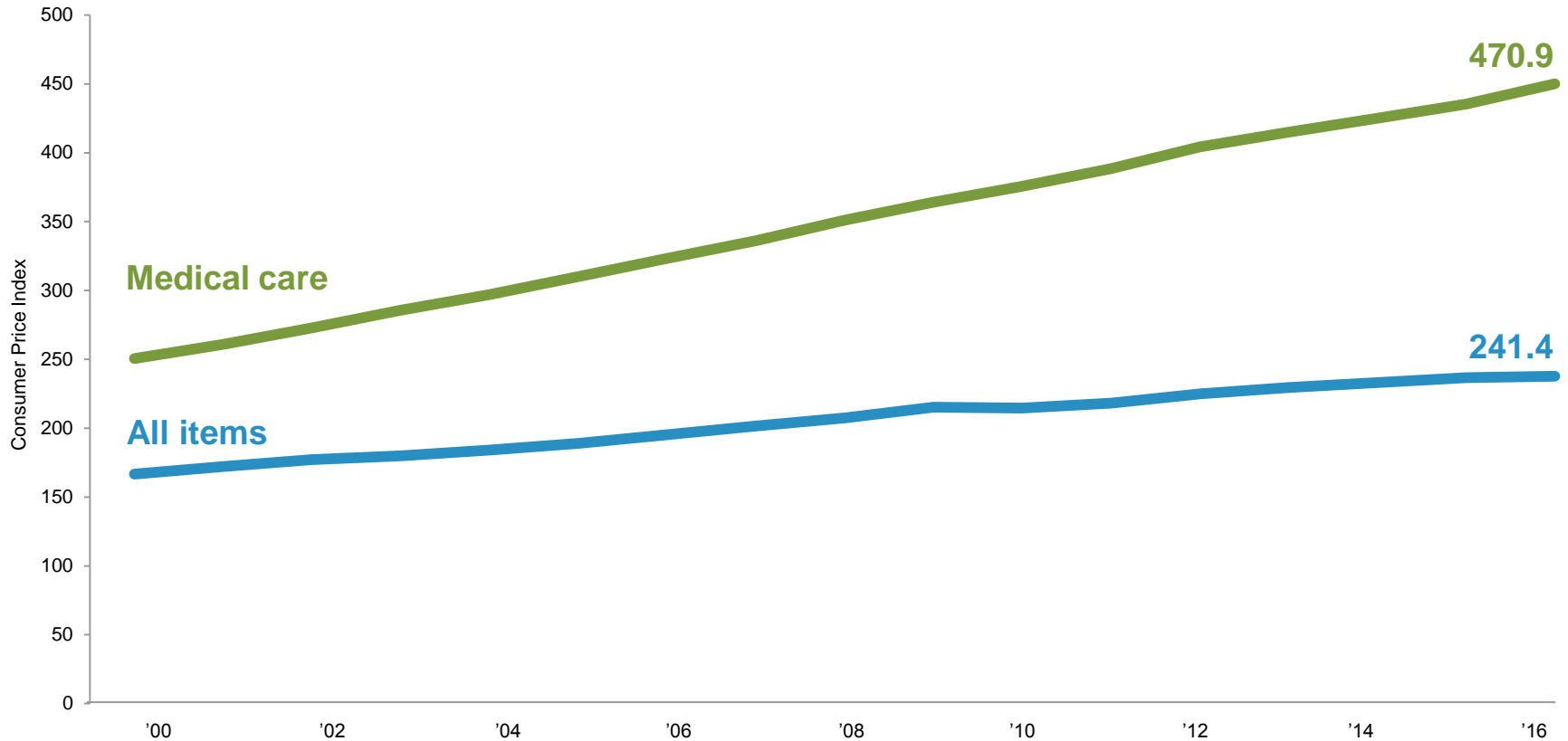
- **Look into Medicare—what it covers and what it costs**

- **Outline a 4-step process for creating a health care plan**

The **confidence of knowing** your health care is covered is one of the most valuable things you can take into retirement.

Rising Health Care Costs—A Reality of Retirement

Health care costs have nearly doubled since 2000






Source: Department of Labor, Bureau of Labor Statistics, Consumer Price Index, as of 12/31/16.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The Reality of Retirement Spending

Individuals spend more than 50% of their retirement income on essential expenses¹

<p>Food</p> 	<p>Health Care</p> 	<p>Housing</p> 
<p>Grocery prices have risen 2%–3% every year since 1990.²</p>	<p>Out-of-pocket medical expenses have increased 30% for seniors since 2000.³</p>	<p>Nearly 40% of retirement income goes to housing.⁴</p>

¹ Source: Fidelity Advisor 2015 Survey of Investors at Retirement, November 2015. Conducted by Research Now on behalf of Fidelity Investments, this survey included 2,021 investors between the ages of 50 and 75 with investable assets of \$100,000 or more. Fidelity Investments was not identified as the survey's sponsor.

² Source: "Food Prices Rise for 4 Reasons," About.com, November 23, 2015.

³ Source: Senior Citizens League. Seniors' Cost of Living (2000–2015).

⁴ "Housing is biggest expense for retirees," Marketwatch, September 30, 2014.

Multiple Factors Drive Up Health Care Costs

Medical Services

\$1,233

Average cost of a typical ER visit—75% more than what the average American spends on utility bills on a monthly basis.¹

Diagnostic Testing

20x

Increase in number of CT scans performed over past three decades.²

Prescription Drugs

13.6%

One-year increase in prescription drug costs.³

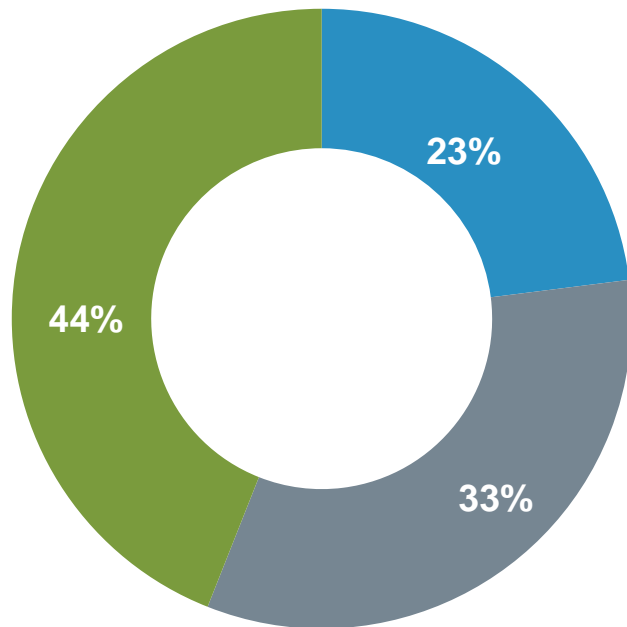
¹ Source: November 2014, *U.S. News & World Report*. "The High Costs of the Retirement Dream."

² Source: 2011, American College of Physicians. CT scans in U.S. 1980–2007.

³ Source: 2015 Milliman Medical Index for the one-year period, 2014–2015.

Understanding Health Care Costs

- 23% Prescription drug out-of-pocket expense
- 33% Expenses associated with Medicare Part B and D premiums
- 44% Medicare cost-sharing provisions: copayments, coinsurance, deductibles, and excluded benefits



Out-of-pocket health care expense estimate for a 65-year-old couple¹
\$280,000

People may underestimate these costs by more than **50%**²

¹ Estimate based on a hypothetical couple retiring in 2018, 65 years-old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates with Mortality Improvements Scale MP-2016. Actual assets needed may be more or less depending on actual health status, area of residence, and longevity. Estimate is net of taxes: cost basis is assumed to equal market value. Estimate is calculated as the assets required today in a taxable account with an effective tax in retirement of 5%, an asset allocation of 30% equity, 50% bonds, and 20% cash, such that there is a 90% chance of being able to pay for health care expenses through life expectancy. The Fidelity Retiree Health Care Costs Estimate assumes individuals do not have employer-provided retiree health care coverage, but do qualify for the federal government's insurance program, Original Medicare. The calculation takes into account cost-sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by Original Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services and long-term care.

² Fidelity-sponsored HSA Survey, conducted by GfK Public Affairs & Corporate Communications, February 2013. The HSA survey was conducted by GfK Public Affairs & Corporate Communications from February 4 to 20, 2013. The study was conducted among a nationally representative sample of 1,836 U.S. adults ages 25–64 with a household income of \$25,000 or more. Respondents also have primary or shared responsibility for household financial decisions and receive health care benefits through their own or their spouse's employer. Nearly half (48%) of the pre-retirees aged 55–64 surveyed estimated they would need only \$50,000 for health care expenses in retirement.

Your Out-of-Pocket Costs May Vary

Individual Costs Depend On:



Personal factors

- Age at retirement
- Years in retirement
- General health



Your risk comfort level

- How much coverage will you plan for?

Learn about Your Options and Get Started on Your Plan

Steps You Can Take Right Now:

1	Get to know Medicare .
2	Estimate your annual Medicare costs .
3	Take stock of your funding sources.
4	Create a health care plan with your financial advisor.

Get to Know Medicare

What are your Medicare options?

Part A	Hospital insurance
Part B	Medical insurance
Part C	Medicare Advantage plans
Part D	Prescription drug coverage
Medigap	Medicare supplemental insurance

Medicare Part A (Hospital Insurance)

In-hospital stay in 2018 (per benefit period)

Days 1–60	\$1,340 deductible
Days 61–90	\$335 per-day copayment
Days 91–150	\$670 per "lifetime reserve day"
Days 150+	All costs

Medicare Part B (Medical Insurance)

In 2018 you can expect to pay:

\$183 deductible | **20%** coinsurance for doctors' services and outpatient care

Individual Filer AGI	Joint Filer AGI	Standard Monthly Premium ¹
		2018
\$85,000 or less	\$170,000 or less	\$134.00
\$85,001 up to \$107,000	\$170,001 up to \$214,000	\$187.50
\$107,001 up to \$133,500	\$214,001 up to \$267,000	\$267.90
\$133,501 up to \$160,000	\$267,001 up to \$320,000	\$348.30
above \$160,000	above \$320,001	\$428.60

¹ Medicare Part B premiums are calculated based on the recipient's adjusted gross income (AGI) from two years prior.

Medicare Part C

Medicare Advantage Plans

- HMOs, PPOs, private fee-for-service plans, Medicare specialty plans
- Address Part A and Part B expenses, and often others, such as prescription drugs
- Costs may increase if you use out-of-network doctors
- Hearing, dental, and vision (not covered under Medicare) may be covered

Medicare Part D (Prescription Drug Coverage)

Higher-Income Beneficiaries Pay Higher Medicare Part B And Part D Premiums


Individual Filer AGI	Joint Filer AGI	Standard Monthly Premium
\$85,000 or less	\$170,000 or less	Average Plan Premium = \$34.00 ¹
\$85,001 up to \$107,000	\$170,001 up to \$214,000	Plan premium + \$13.00
\$107,001 up to \$133,500	\$214,001 up to \$267,000	Plan premium + \$33.60
\$133,501 up to \$160,000	\$267,001 up to \$320,000	Plan premium + \$54.20
above \$160,000	above \$320,000	Plan premium + \$74.80

Less than 5% of individuals with Medicare have a higher income and pay a higher premium.²

¹ Source: 2017, Medicare Matters, "How Much Does Medicare Part D Cost?"

² Source: Medicare.gov, 2018.

Medicare Part D (Prescription Drug Coverage) continued

 You pay

 Medicare pays

Premiums vary by insurer

The donut hole is large and costly.

95% Medicare benefit (catastrophic coverage)

Beneficiary pays 5%

\$7,508.75 in total drug costs

\$5,000.00 out-of-pocket reached

Limited Medicare coverage in donut hole

\$3,750.00 in total drug costs

75% Medicare benefit (initial coverage)

Beneficiary pays 25% or \$836.25

\$405.00 deductible

Beneficiary pays 100% or \$405.00

Medigap

Supplemental Medicare Insurance

- 10 standard plans offering different levels of coverage
- Premium cost for same coverage varies by insurance company and state where purchased
- Flexibility to see any doctor who accepts Medicare
- No coverage for dental, hearing, or vision
- No prescription drug coverage

Medigap Benefits	Medigap Plans									
	A	B	C	D	F*	G	K	L	M	N
Part A coinsurance and hospital costs up to an additional 365 days after Medicare benefits are used up	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Part B coinsurance or copayment	Yes	Yes	Yes	Yes	Yes	Yes	50%	75%	Yes	Yes
Blood (first 3 pints)	Yes	Yes	Yes	Yes	Yes	Yes	50%	75%	Yes	Yes
Part A hospice care coinsurance or copayment	Yes	Yes	Yes	Yes	Yes	Yes	50%	75%	Yes	Yes
Skilled nursing facility care coinsurance	No	No	Yes	Yes	Yes	Yes	50%	75%	Yes	Yes
Part A deductible	No	Yes	Yes	Yes	Yes	Yes	50%	75%	50%	Yes
Part B deductible	No	No	Yes	No	Yes	No	No	No	No	No
Part B excess charge	No	No	No	No	Yes	Yes	No	No	No	No
Foreign travel exchange (up to plan limits)	No	No	80%	80%	80%	80%	No	No	80%	80%
Out-of-pocket limit	N/A	N/A	N/A	N/A	N/A	N/A	\$5,120	\$2,560	N/A	N/A

Questions to Weigh When Considering Plan Options

Consider

- ✓ Do you have coverage for dental, hearing, and vision care—**services not covered by Medicare?**
- ✓ Is it important for you to **continue seeing your current physicians?**
- ✓ Have you estimated the total **out-of-pocket costs for prescription drugs?**
- ✓ Do you want **flexibility to choose providers**—particularly specialists?
- ✓ Do you have **protection from catastrophic illness?**

Estimate Your Annual Medicare Costs

Hypothetical Example of Medicare Costs

Couple, Age 65

Income <\$170,000

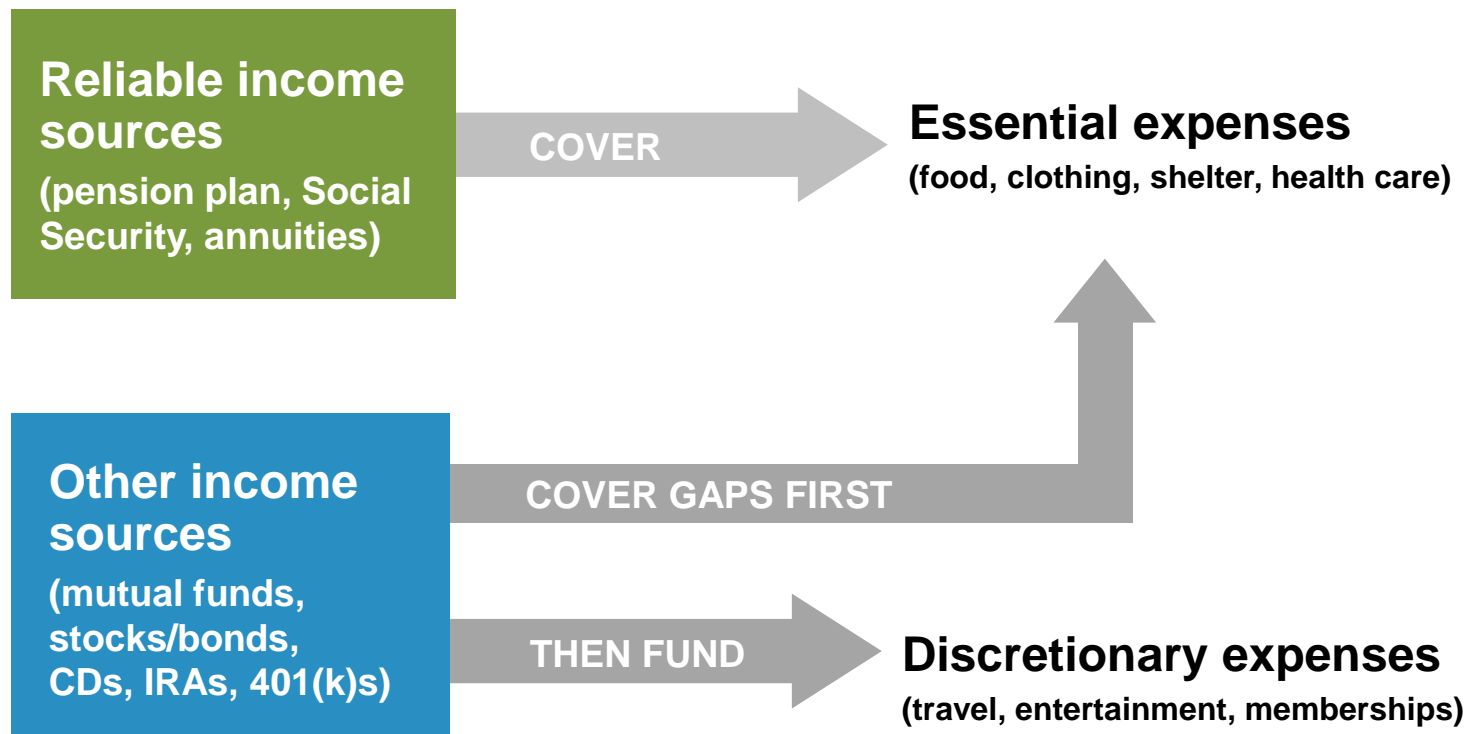
Medicare Part A	\$0—covered by Medigap F
Medicare Part B	\$1,608.00 for premium—deductible and coinsurance covered by Medigap*
Medicare Part D	\$2,899.25 for premium and deductible ¹
Medigap Plan F*	\$2,868.00 for premium ²
Annual total	\$7,375.25 per person or \$14,750.50 per couple

¹ Based on the estimated average annual per-beneficiary cost spending for Part D for 2018.

² National average monthly premium range is from \$159 to \$239 per month, for a 65-year-old male. Nasdaq.com: "Should You Get a Medigap Plan?", 2017.

Take Stock of Your Funding Sources

Use Your Sources of Dependable Income to Cover Health Care and Other Essential Expenses



Source: Fidelity Advisor 2013 Survey of Investors at Retirement.

Take Stock of Your Funding Sources

Group Income Sources By Dependability



Reliable income sources

- Pension
- Social Security
- Annuities



Other income sources

- Mutual funds, systematic withdrawals
- Bonds
- Real estate
- Life insurance
- Health Savings Accounts
- Part-time work

Create a Health Care Plan with Your Financial Advisor

Your Advisor Can Help You:

- ✓ **Check** your health care expense estimates
- ✓ **Bucket** essential and discretionary expenses
- ✓ **Review** your sources of income
- ✓ **Create** a plan to ensure that your health care and other essential expenses are covered
- ✓ **Develop** a financial strategy for discretionary spending

Appendix

Additional Health Care Topics

Key Dates for Medicare

Part A & B Regular Medicare	Part D Prescription drug coverage	Part C Medicare Advantage plans
<ul style="list-style-type: none">• 3 months before reaching age 65 (7-month enrollment window)• Late enrollment penalty, some exceptions apply	<ul style="list-style-type: none">• Initial enrollment deadline is the same as Parts A & B• October 15–December 7 annual enrollment window for changes	<ul style="list-style-type: none">• Similar to regular Medicare (Parts A & B)• October 15–December 7 to add, drop, or change• January 1–February 14 to drop existing plan and switch to regular Medicare if plan is non-renewing• Calendar-year enrollment• Limited ability to make changes

Medicare and Working Beyond Age 65

What you need to know

Working at a company with
less than 20 employees



Enroll in Medicare Parts A & B as Medicare will now be your “primary” coverage and your employer based coverage will be secondary.

Working at a company with 20 or
more employees



Are you already collecting Social Security?

Yes

You will be automatically enrolled in Medicare Parts A & B upon reaching age 65 but have the option to opt out of part B.

No

You do not have to enroll in any parts of Medicare. And you can later enroll during your Special enrollment Period and not be subject to late enrollment penalties provided you have had creditable health insurance.

I’m not collecting Social Security and Medicare Part A is “free,” shouldn’t I go ahead and enroll in Part A?

Pro

You can enroll in Medicare Part A, and Part A may pick up some hospital expenses not covered by your employer based coverage.

Con

Once enrolled in Medicare Part A (and/or B) you can no longer contribute to an HSA as Medicare is not considered high deductible insurance.

Retiring before Medicare Eligibility

Pre-Retirees Need Help

49%

workers retired earlier than expected¹

72%

large employers do not offer retiree health care to active employees²

38%

employers plan to discontinue retiree health insurance for pre-65 retirees³

¹ Employee Benefit Research Institute, Retirement Confidence Survey, March 2014.

² Kaiser Family Foundation, 2013. Large employers are those with 200 or more employees.

³ Towers Watson, July 2013. Includes 420 mid- to large-size companies, employing 8.7M people across industries, were surveyed.

Retiring before Medicare Eligibility

You May Have Options for Short-Term Coverage If You Retire Early

- Pay to continue coverage under COBRA
- Join a working spouse/partner's plan
- Look for high-risk pools and pre-existing condition plans
- Find a part-time job: Less than 1/4 of part-time employees have health benefits*
- Get coverage through a health care exchange
- Purchase private insurance

* Bureau of Labor Statistics, July 2014.

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