

Planning for Health Care in Retirement

It's on your client's mind. Is it on yours?



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Agenda

Health care costs

Understanding Medicare

Creating a health care plan

Next steps

High Anxiety

Health care is a BIG concern for many

80%

Affluent Americans
with a high concern
about health care in
retirement¹

#1

greatest threat to
retirement savings
and most important
part of retirement
income plan²

6.2%

2015 projected
annual growth
in health care
spending through
2022³

1. Merrill Lynch Edge Report: Spring 2013.

2. Fidelity Advisor 2013 Survey of Investors at Retirement, July 2013. Conducted by Research Now on behalf of Fidelity Investments, this survey included 1,886 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.

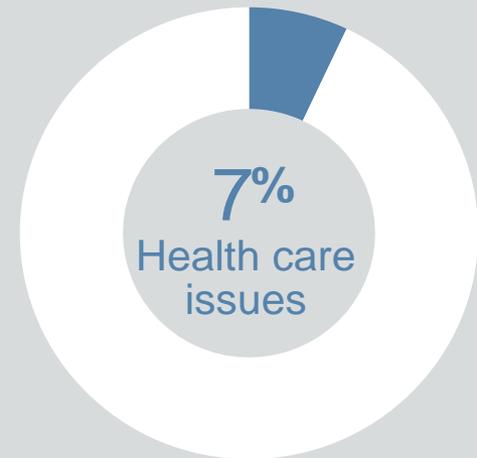
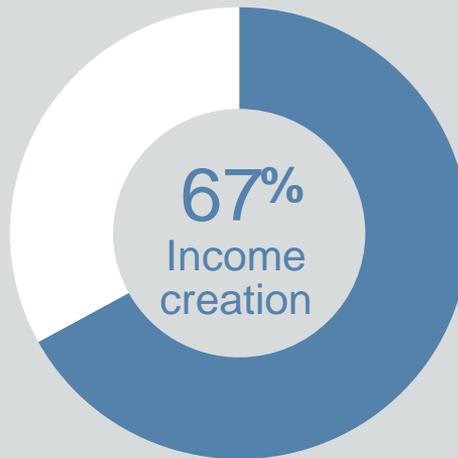
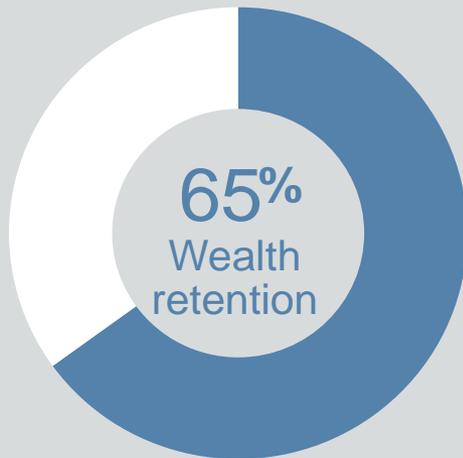
3. Center for Medicare and Medicaid Studies, National Health Expenditures Projections 2015–2022.

Your Opportunity

Equip yourself to address this critical planning need

Advisors rate themselves:¹

% of advisors who are well equipped for retirement needs in the areas of...



1. "Retirement Readiness. It's Crunch Time for Advisors Helping Boomers Prepare for Retirement," Rydex Advisor Benchmarking, Inc., March 2007.

Three-Step Strategy

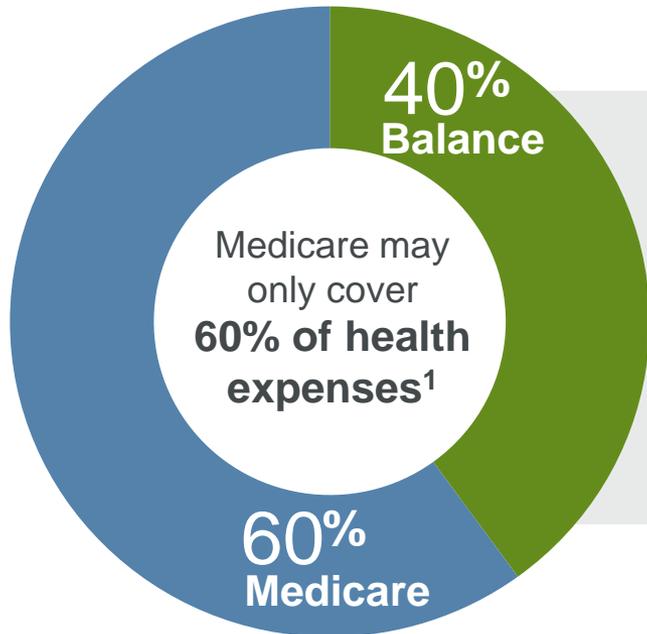
Three steps to setting yourself apart

1 Help clients understand health care costs in retirement

2 Show clients what Medicare covers and where added costs come from

3 Create a plan to cover these costs

Understanding Health Care Costs



Out-of-pocket health care expense estimate for a 65-year-old couple²

\$245,000

People may underestimate these costs by more than **50%**³

1. EBRI, "Savings Needed for Health Expenses for People With Medicare Coverage," October 2012.

2. 2015 Fidelity analysis performed by its Benefits Consulting group. Estimate based on a hypothetical couple retiring in 2015, 65-years-old, with average life expectancies of 85 for a male and 87 for a female. Estimates are calculated for "average" retirees, but may be more or less depending on actual health status, area of residence, and longevity. 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. Life expectancies based on research and analysis by Fidelity's Benefits Consulting group and data from the Society of Actuaries, 2014.

3. 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.

Understanding Medicare

Medicare Part A

Hospital insurance

Medicare Part B

Medical insurance

Medicare Part D

Prescription drug coverage

Medigap

Medicare supplemental insurance

Medicare Part C

Medicare Advantage plans

Key Dates for Medicare

Part A & B

Regular Medicare

- 3 months before reaching age 65 (7-month enrollment window)
- Late enrollment penalty, some exceptions apply

Part D

Prescription drug coverage

- Initial enrollment deadline is the same as Parts A & B
- October 15–December 7 annual enrollment window for changes

Part C

Medicare Advantage plans

- 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

Understanding Medicare

Medicare Part A

HOSPITAL INSURANCE

Patient Pays for an In-Hospital Stay in 2015

| | |
|-------------|----------------------------------|
| Days 1–60 | \$1,260 deductible |
| Days 61–90 | \$315 per-day copayment |
| Days 91–150 | \$630 per "lifetime reserve day" |
| Days 150+ | All costs |

Understanding Medicare

Medicare Part B

MEDICAL INSURANCE

Individuals can expect to pay in 2015:

\$147 deductible | **20%** coinsurance for doctors' services and outpatient care

STANDARD MONTHLY PREMIUM*

| Individual Filer AGI | Joint Filer AGI | Premium |
|---------------------------|---------------------------|----------|
| \$85,000 or less | \$170,000 or less | \$104.90 |
| \$85,001 up to \$107,000 | \$170,001 up to \$214,000 | \$146.90 |
| \$107,000 up to \$160,000 | \$214,001 up to \$320,000 | \$209.80 |
| \$160,001 up to \$214,000 | \$320,001 up to \$428,000 | \$272.70 |
| above \$214,000 | above \$428,000 | \$335.70 |

* 2015 premium is based on yearly income in 2013 (modified adjusted gross income as reported on an IRS tax return). Premiums did not change from 2014.
Source: Medicare.gov, 2014.

Understanding Medicare

Medicare Part D

PRESCRIPTION DRUG COVERAGE (2015)

■ INDIVIDUALS PAY

■ MEDICARE PAYS

Premiums vary by insurer

The donut hole is large and costly.

95%
Medicare benefit
(catastrophic coverage)

Limited Medicare coverage in donut hole

75%
Medicare benefit
(initial coverage)

\$320 deductible

**Beneficiary pays 5% (min. copay);
\$2.65 generic or \$6.60 brand**

**\$6,680 in total drug costs
\$4,700 out-of-pocket reached**

Beneficiary pays \$3,720

\$2,960 in total drug costs

Beneficiary pays 25% or \$660

Beneficiary pays 100% or \$320

Understanding Medicare

Medicare Part D

PRESCRIPTION DRUG COVERAGE (2015)

Individuals can expect to pay in 2015:

| | |
|-------------------------|--|
| \$147 deductible | 20% coinsurance for doctors' services and outpatient care |
|-------------------------|--|

STANDARD MONTHLY PREMIUM FOR HIGH-INCOME BENEFICIARIES*

| Individual Filer AGI | Joint Filer AGI | Premium |
|---------------------------|---------------------------|------------------------|
| \$85,000 or less | \$170,000 or less | Plan premium |
| \$85,001 up to \$107,000 | \$170,001 up to \$214,000 | Plan premium + \$12.30 |
| \$107,000 up to \$160,000 | \$214,001 up to \$320,000 | Plan premium + \$31.80 |
| \$160,001 up to \$214,000 | \$320,001 up to \$428,000 | Plan premium + \$51.30 |
| above \$214,000 | above \$428,000 | Plan premium + \$70.80 |

Understanding Medicare

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

Understanding Medicare

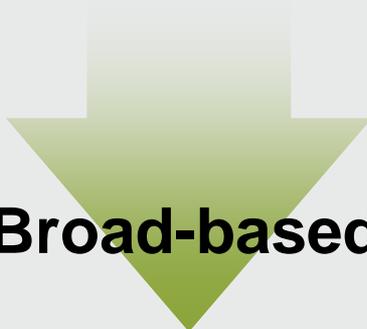
Medicare Part C

MEDICARE ADVANTAGE PLANS

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

Create a Health Care Coverage Plan

Two Strategies



Broad-based

**Set aside \$245,000
for health care in retirement**



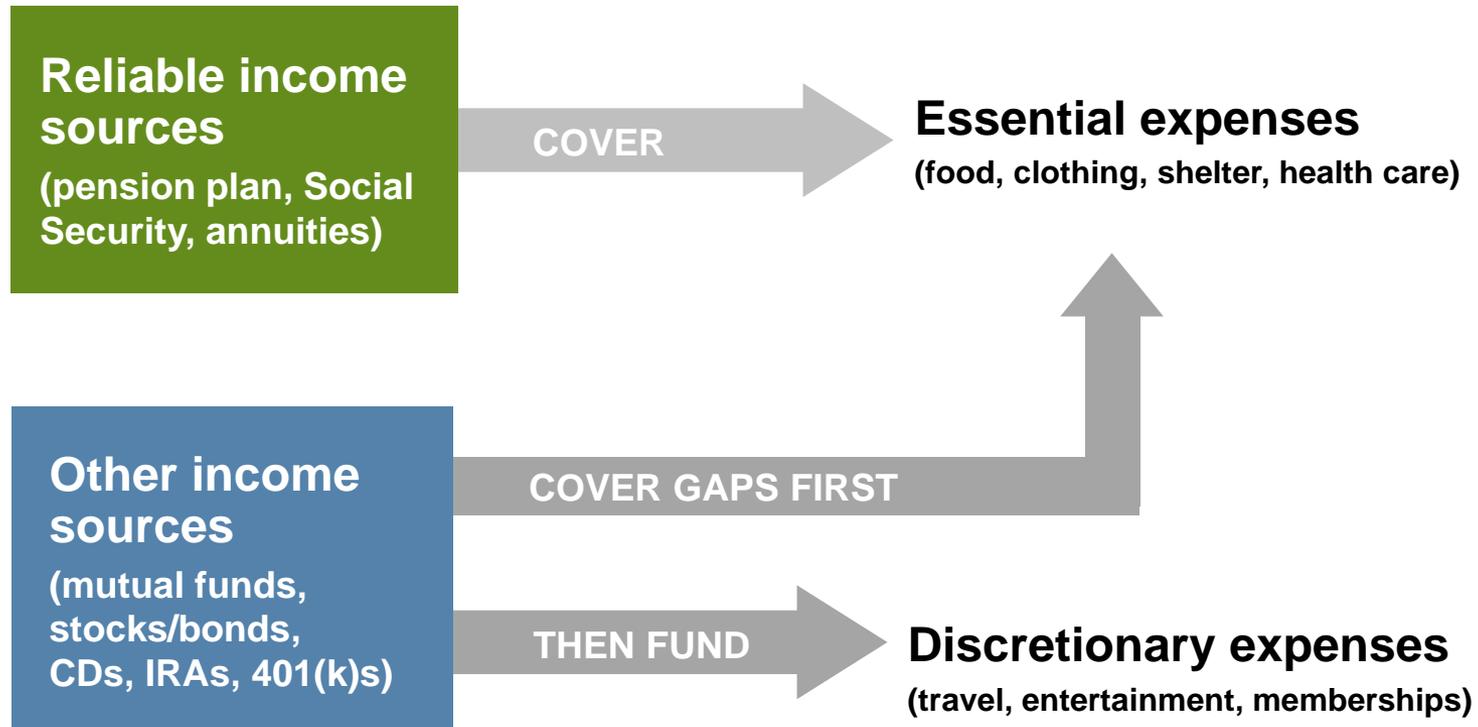
Personalized

**Break down
health care expenses**

Health care should be considered an
essential expense

Create a Health Care Coverage Plan – Broad Based

Retirement income must cover essential and discretionary expenses



Create a Health Care Coverage Plan – Personalized

HYPOTHETICAL EXAMPLE OF MEDICARE COSTS

Couple, Age 65
Income <\$170,000,



| | |
|------------------------|---|
| Medicare Part A | \$0 – covered by Medigap F |
| Medicare Part B | \$1,259 for premium – deductible and coinsurance covered by Medigap |
| Medicare Part D | \$2,014 for premium and deductible ¹ |
| Medigap Plan F | \$2,180 for premium ² |
| Annual total | \$5,453 per person or \$10,906 per couple |

1. Based on the estimated average annual per-beneficiary cost spending for Part D for 2015. The Department of Health and Human Services, 2014 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

2. 2015 annual amount; Medicare.gov, 2014.

Health Care Opportunity

Leverage the growing anxiety and attention directed at health care today

Follow a three-step strategy for making the most of today's health care opportunity

Differentiate yourself in the eyes of your clients

Fidelity can work with you
in the area of retirement income planning.

Health Care Planning Resources

- [Medicare.gov](https://www.Medicare.gov)
- [Eldercare.gov](https://www.Eldercare.gov)
- [AARP.org](https://www.AARP.org)
- [State Health Insurance Programs \(SHIPtalk.org\)](https://www.StateHealthInsurancePrograms.org)
- [Benefitscheckup.org](https://www.Benefitscheckup.org)
- [SocialSecurity.gov](https://www.SocialSecurity.gov)

Appendix

Additional Health Care Topics

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.

Closing the Coverage Gap

Clients who retire early may have options for short-term coverage

- 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.

Patient Protection and Affordable Care Act

Designed to provide expanded coverage to uninsured

- **Standardization of plan coverage**

Minimum of 60%
out-of-pocket expenses,
including essential
health benefits

No lifetime or
annual limits

- **Coverage for dependent children until age 26**
- **Expanded Medicaid coverage**
- **Premium tax credits to low- and moderate-income households**
- **Imposed mandates**

Coverage
regardless of
health or
pre-existing
conditions

Coverage Plans

| Plan | Coverage* | Avg. monthly premium before tax credits† | Typical deductible | Typical coinsurance |
|----------|-----------|--|--------------------|---------------------|
| Bronze | 60% | \$289 | \$5,000 | 30% |
| Silver | 70% | \$345 | \$2,000 | 20% |
| Gold | 80% | \$428 | \$0 | 20% |
| Platinum | 90% | \$452 | \$0 | 10% |

- Out-of-pocket costs cannot exceed \$6,350 for individual/\$12,700 for family
- People with incomes below 133% of the federal poverty level (FPL) now covered by Medicaid
- People between 100% and 400% of FPL eligible for assistance

* Percentage of total average costs the health plan will cover. Plans and coverage amounts vary by state.

† Assistant Secretary for Planning and Evaluation (ASPE) computation of Centers for Medicare & Medicaid Services (CMS) federally facilitated marketplace data as of 5/12/14.

Source: Kaiser Family Foundation, August 2013; figures for individual coverage.

FPL for 2014 is \$11,670 for individuals and \$23,850 for a family of four.

Available Tax Credits

**For families with income between \$23,850 and \$95,400
(100%–400% of FPL)¹**

HYPOTHETICAL EXAMPLE

Meet the Smiths:

Annual income is **300%** of FPL = \$70,650

Max contribution is 9.50% of income or
\$6,711.75 [approx. \$559/month]

Premium tax credit = **\$6,788.25** [\$13,500²
minus max contribution amount]

Maximum Contribution Premium for Families

| % of FPL | % of Income |
|--------------|-------------|
| 100% to 133% | 2.00% |
| 133% to 150% | 3.00%–4.00% |
| 150% to 200% | 4.00%–6.30% |
| 200% to 250% | 6.30%–8.05% |
| 250% to 300% | 8.05%–9.50% |
| 300% to 400% | 9.50% |

Must obtain plan from a health care exchange

1. FPL for 2014 is \$11,670 for individuals and \$23,850 for a family of four; source: U.S. Dept. of Health & Human Services Website, March 2014.

2. \$13,500 is the national average premium for bronze plans; source: HHS.

Individual Mandate Penalty

| | Adult | Child | Family Total | % of Income [†] |
|------|-------|----------|--------------|--------------------------|
| 2014 | \$95 | \$47.50 | \$285 | 1.0% |
| 2015 | \$325 | \$162.50 | \$975 | 2.0% |
| 2016 | \$695 | \$347.50 | \$2,085 | 2.5% |

Penalty amount will increase each year.

Penalties for no coverage are the greater of:

- Percentage of yearly household income, not to exceed national average premium for Bronze plan*
- Specific amount per year, not to exceed a maximum amount

Source: Healthcare.gov.

* Average monthly premium by age for Bronze plan: age 30 – \$262.69; age 40 – \$295.51; age 50 – \$413.16; age 60 – \$627.10. Source: HealthPocket.

† Income in excess of federal filing threshold.

Employer Mandate Penalty

Penalty imposed for employers not offering health insurance

Employers with more than 100 employees

- Provide benefits to 70% of full-time employees by 2015; 95% by 2016
- \$2,000 per-person penalty for no coverage (first 30 employees exempt)
- Health care coverage must be affordable and provide minimum coverage

Employers with 50–99 employees

- Effective 2016
- \$2,000 per-person penalty for no coverage (first 30 full-time employees are exempt)

Employers with fewer than 50 employees

- No penalty for not offering coverage
- Eligible for subsidy or tax credit if coverage is offered

Funding the Affordable Care Act

New taxes to help offset [health care] costs

Taxes for high-income earners

(\$200k single filer/\$250k joint filers)

- 0.9% increase on the existing Medicare income tax
- New 3.8% Medicare tax on unearned or investment income above 200k for single filer/\$250k for joint filers

40% excise tax on “Cadillac” plans

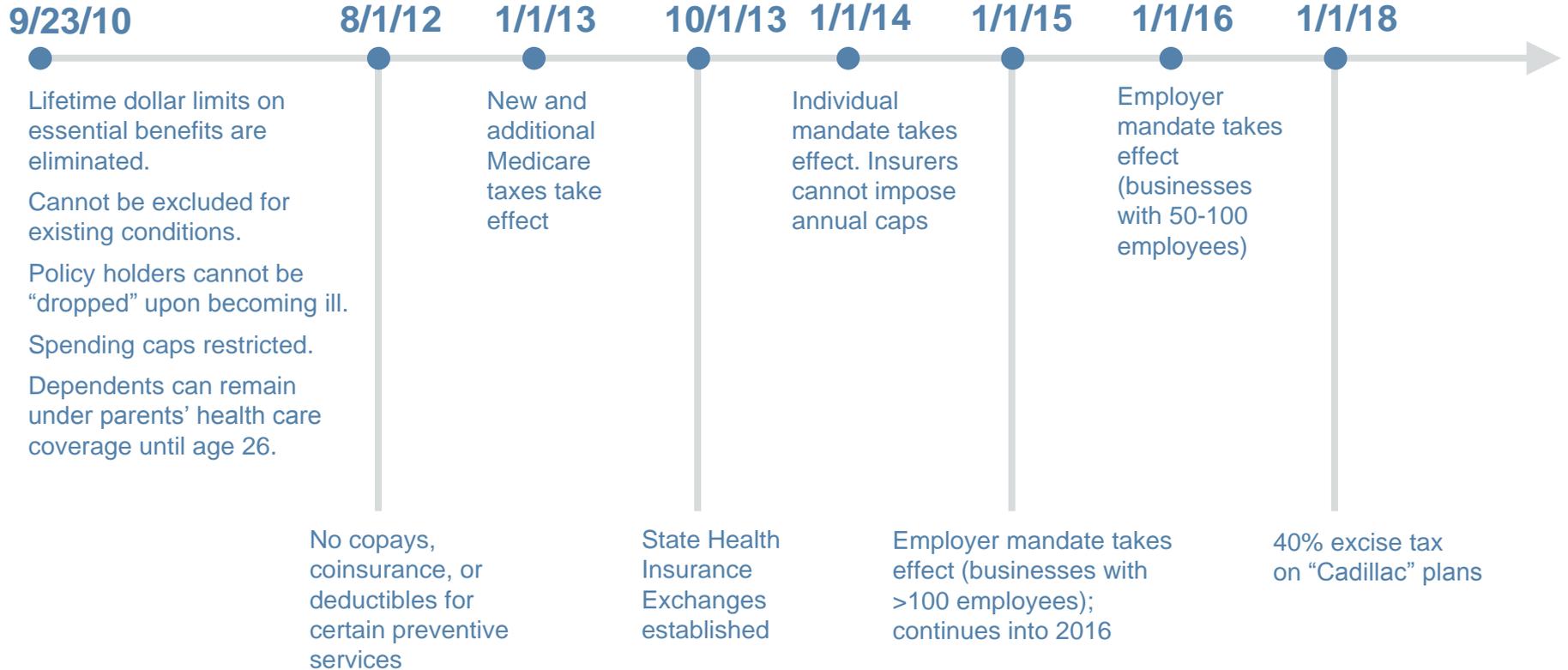
- Effective 2018 for high-premium plans (annual premium exceeds \$10,200 for an individual or \$27,500 for a family)

Annual fee paid by health insurance companies to participate in health insurance exchanges

33 million more Americans will have health insurance by 2016*

* Projection from Congressional Office Budget.

Timeline



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