



**MANAGING YOUR
COSTS IN RETIREMENT**

HEALTH CARE

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have you accounted for health care in your retirement plan?

Health care is one of the largest expenses you'll need to plan for during retirement. Yet many people don't take the time to consider these expenses when putting together a retirement plan. That could be because of a common misconception that Medicare will cover all your health care expenses. Also, with life expectancies on the rise, you'll most likely need to account for health care expenses for a longer period of time.



Did you know?

- Health care is the second largest expense in retirement¹
- Medicare is not free
- Medicare does not cover all of your health expenses

The amount you'll spend on health care during your retirement depends on a number of factors, including how healthy you are, how long you'll live and the level of health care coverage you want. When you decide to retire can make a significant difference to your health care costs. On average, **a retiring couple will need about \$10,000 - \$11,000 per year** to pay for out-of-pocket health care costs.²

how much money will I need?

Since Medicare is the primary source of health care coverage for most retirees, a good place to start planning is understanding what Medicare actually covers.

For example, Medicare does not cover hearing aids, eye exams related to prescribing glasses, acupuncture, long-term care, or most dental care.

Your financial professional can:

- Help you estimate your future health care costs and incorporate them into your overall retirement income plan.
- Show you strategies that include guaranteed lifetime income to help you address your health care costs in retirement.

MEDICARE
ONLY COVERS
APPROXIMATELY

64%

of health care
expenses.³

Married couple retiring at age **65**

Average health care costs
\$285,000²

¹ Bureau of Labor Statistics, Consumer Expenditure Survey 2018; Table 1300 Mean annual expenditures by age; Age 75+

² Fidelity Benefits Consulting estimate, 2019. Health care and nursing home costs may vary by state.

³ EBRI, *Savings Medicare Beneficiaries Need for Health Expenses in 2019*, May 16, 2019

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how does Medicare work?

Taking time now to learn about your Medicare options can help you choose the plan that is best for you. You can choose from two Medicare approaches: **unbundled** or **bundled**.

The unbundled approach to Medicare

Also referred to as Original Medicare, the unbundled approach allows an individual to purchase Medicare options separately. Approximately two-thirds of Medicare recipients choose this approach.¹



UNBUNDLED – ORIGINAL MEDICARE

Part A: Hospital Insurance

Part B: Medical Insurance

Part D: Prescription Drug Coverage

Medigap: Fills gaps of coverage for Parts A, B and D (deductibles, copayments, coinsurance)

The ABCs of Medicare

MEDICARE PART A: HOSPITAL INSURANCE

Provides hospital coverage and limited skilled nursing facility coverage.

Part A enrollment	<p>You'll get Part A automatically if</p> <ul style="list-style-type: none"> You reach age 65 and are already receiving benefits from Social Security You are under age 65, have a disability, and have been receiving Social Security disability benefits for at least 24 months <p>If you are not automatically enrolled, you can apply in the seven-month period beginning three months before the month of your 65th birthday and ending three months after.</p>
Part A monthly premium	<p>You won't pay a monthly premium for Part A if</p> <ul style="list-style-type: none"> You are receiving or are eligible to receive Social Security benefits (including spousal and survivor benefits) You or your spouse has Medicare-covered government employment <p>Otherwise, your cost for Part A will be based upon your Social Security eligibility and the number of quarters you paid into the system.</p>
Part A hospital inpatient deductible and coinsurance	<p>You pay</p> <ul style="list-style-type: none"> \$1,408 deductible for each benefit period Days 1-60: \$0 coinsurance for each benefit period Days 61-90: \$352 coinsurance per day of each benefit period Days 91-150: \$704 coinsurance per "lifetime reserve" day Days 151+: All costs paid by patient
Part A skilled nursing facility deductible and coverage	<p>Beyond lifetime reserve days, you pay all costs</p> <ul style="list-style-type: none"> Days 1-20: \$0 for each benefit period Days 21-100: \$176 coinsurance per day Day 101 and beyond: You pay all costs

Sources: U.S. Dept. of Health and Human Services, Notice CMS-8071-N, November 8, 2019 Centers for Medicare & Medicaid Services, *Medicare Coverage of Skilled Nursing Facility Care*, CMS Product No. 10153, July 2019

¹ Medicare.gov, accessed March 2020

MEDICARE PART B: MEDICAL INSURANCE

Provides non-hospital medical coverage, including doctor visits and outpatient care. Does not include routine vision, dental, foot care, and hearing aids.

Part B enrollment	You'll get Part B automatically if <ul style="list-style-type: none"> You reach age 65 and are already getting benefits from Social Security You are under 65 and have a disability and have been receiving Social Security disability benefits for at least 24 months If you are not automatically enrolled, you can apply during the months surrounding your 65th birthday; i.e., the 3 months before, the month of, and the 3 months following your birthday		
Part B monthly premium – based on Modified Adjusted Gross Income (MAGI)	If your income in 2018 was		Your 2020 monthly Part B premium is
	File individual Tax Return	File Joint Tax Return	
	\$87,000 or less	\$174,000 or less	\$144.60
	above \$87,000 up to \$109,000	above \$174,000 up to \$218,000	\$202.40
	above \$109,000 up to \$136,000	above \$218,000 up to \$272,000	\$289.20
	above \$136,000 up to \$163,000	above \$272,000 up to \$326,000	\$376.00
	above \$163,000 up to \$500,000	above \$326,000 up to \$750,000	\$462.70
Greater than \$500,000	Greater than \$750,000	\$491.60	
Part B deductible	\$198 per year		
Additional costs	You are responsible for a 20% coinsurance on doctor's services and outpatient care and any amounts over the Medicare allowed charge		

Source: U.S. Dept. of Health and Human Services, Notice CMS-8073-N, Nov. 8, 2019

MEDICARE PART D: PRESCRIPTION DRUG COVERAGE

To get Medicare Part D, you must be enrolled in Parts A and/or B, and you must join a plan run by an insurance company or other private company approved by Medicare. Each plan can vary in cost and drug coverage.

Part D enrollment	Initial enrollment is held during the 7-month period surrounding your 65th birthday: the 3 months before, the month of, and the 3 months following. If you miss enrolling during this time period, you may have to wait until annual open enrollment, which is October 15 - December 7.				
Premiums	You are responsible for a premium which varies by plan and income. The estimated national average monthly premium in 2020 is \$42.05 ²				
Part D coverage		Prescription drug costs	What you pay	What Part D pays	Your cumulative out-of-pocket expenses
	Annual deductible	\$0 - \$435	100%	0%	\$435
	Initial coverage phase	\$436 - \$4,020	25%	75%	\$896.25
	†Donut Hole	\$4,020 - \$9,038.75 ³	100%	0%	\$5,018.75
	Catastrophic	\$9,719.38 ³		95%	\$5,018.75 ⁴

Source: CMS Announcement of CY 2020 Medicare Advantage Capitation Rates and Medicare Advantage and Part D Payment Policies and Final Call Letter, April 1, 2019

² Kaiser Family Foundation; *Medicare Part D: A First Look at Prescription Drug Plans in 2020*; November 14, 2019

³ Participants qualifying for Low Income Subsidies (LIS) attain out-of-pocket threshold at \$9,038.75 of drug spending; participants who do not qualify for the LIS attain the out-of-pocket threshold at \$9,719.38

⁴ In the donut hole, you'll get a 75% discount on Part D-covered brand-name prescription drugs, and a 75% discount on covered generic prescription drugs, which is applied automatically at your pharmacy

Optional Medigap Insurance

Medicare supplement (Medigap) insurance is sold by private companies to provide reimbursement for out-of-pocket medical costs. It helps “fill in the gaps” of Parts A and B by paying some of the health care costs that Medicare doesn't cover, such as copayments, extended hospitalization, coinsurance, and deductibles.



Medigap enrollment	<p>Enrollment: 6-month automatic enrollment period starts the first day of the month you are age 65 or older and are enrolled in Part B.</p> <ul style="list-style-type: none"> During this period, you can't be turned down for pre-existing conditions – If you miss this enrollment period, you could pay more or be denied coverage for pre-existing conditions (the Affordable Care Act ban on denying coverage does not apply to Medicare)
Medigap coverage and information	<ul style="list-style-type: none"> Flexibility to see any doctor that accepts Medicare 10 standard plans offering different coverage, and plans vary depending on state Cost of coverage will vary by plan and state. The average monthly premium is \$165* Some Medigap policies offer coverage for services that Original Medicare doesn't cover, like medical care when you travel outside the U.S. Medigap policies generally don't cover long-term care, vision or dental care, hearing aids, eyeglasses, or private-duty nursing Any standardized Medigap policy is guaranteed renewable even if you have health problems. This means the insurance company can't cancel your Medigap policy as long as you pay the premium. You cannot have a Medigap policy at the same time you have a Part C Medicare Advantage Plan

* Medicare.gov, Medigap Policy Search, accessed November 2019. Data for average cost for Medigap Policy G in Overland Park, KS (66013), assuming good health

The bundled approach to Medicare

Also referred to as Medicare Advantage, the bundled approach allows an individual to purchase a health insurance plan from a private provider that covers Parts A, B and often D.

PART C: MEDICARE ADVANTAGE Combines parts of Medicare A, B and D

- It's a Medicare health plan offered through private insurers that contract with Medicare to provide you with all of your Parts A and B benefits
- Available in three formats: managed care plans (HMOs and PPOs), private fee-for-service plans or medical savings accounts
- Private insurers may be able to offer lower premiums than Original Medicare, but can limit you to in-network providers

Medicare Advantage enrollment	<p>Initial enrollment is held during the 7-month period surrounding your 65th birthday: the 3 months before, the month of, and the 3 months following.</p> <p>Open enrollment: October 15th – December 7th</p>
Medicare Advantage coverage and information	<ul style="list-style-type: none"> Hearing, dental and vision may be covered Most offer prescription drug coverage Most plans require that you use in-network doctors, hospitals and other providers or costs may increase for out-of-network providers Each plan can charge different out-of-pocket costs, but annual out-of-pocket expenses cannot exceed \$6,700** You usually pay one monthly premium to the plan in addition to your Part B premium and copayments. The average monthly premium is \$36***

** Centers for Medicare & Medicaid Services, "Announcement of Calendar Year (CY) 2020 Medicare Advantage Capitation Rates and Medicare Advantage and Part D Payment policies and Final Call letter"; Table 19; April 1, 2019

*** Kaiser Family Foundation; *Medicare Advantage 2020 Spotlight: First Look*; Jacobsen, Freed, Damico, & Neuman; October 2019

BUNDLED – PART C MEDICARE ADVANTAGE

An All-In-One Plan

– Includes Parts A and B

– Often includes Part D

Here is an average cost example using the unbundled approach. This example shows Medicare coverage for a married couple with Modified Adjusted Gross Income (MAGI) of less than \$170,000 per year.

Coverage	Average annual cost
Part A: Hospital Insurance: Provides hospital coverage and limited skilled nursing facility coverage	\$0 Premium
Part B: Medical Insurance: Provides non-hospital medical coverage; for example, doctor's visits	\$1,735 Premium
Part D: Prescription Drug Coverage: Medicare drug coverage	\$505 Premium
Medigap²: Optional Medicare supplement insurance that's sold by private companies to provide reimbursement for some out-of-pocket medical costs (Does not cover vision, hearing or dental)	\$1,980 Premium
Out-of-pocket expenses (deductibles, co-pays and coinsurance not covered by Medigap, plus dental, vision, hearing expenses) ³	\$2,152 Premium
Total per person	\$6,372 Premium

¹ Kaiser Family Foundation, Medicare Part D: *A First Look at Prescription Drug Plans in 2020*, November 14, 2019

² Medicare.gov, Medicare Plan Finder; data for average cost for Plan G in Overland Park, KS (66013)

³ Kaiser Family Foundation, *How Much Do Medicare Beneficiaries Spend Out of Pocket on Health Care?*, November 4, 2019; Excludes expenses for long-term care

Guaranteed lifetime income products can help you cover health care costs for the rest of your life

Variable annuities that provide guaranteed lifetime income can be part of your strategy to meet the challenges of health care costs in your retirement. Your financial professional can help you decide if a variable annuity is right for your situation.

At Prudential Annuities, we offer a variety of variable annuity strategies with innovative products and benefits, available for a fee, that can help you cover health care costs for as long as you live, provided excess withdrawals are not taken. Together, our variable annuities with living benefits are designed to provide you with guaranteed lifetime income in retirement and can:

- Help protect your retirement income during market downturns
- Offer the opportunity for guaranteed income growth
- Provide tax deferral advantages
- Give you the flexibility to access your account value if needed (subject to contract terms)

Make a plan to pay for health care in retirement

Your financial professional can suggest strategies, including variable annuities, that can help you cover your health care costs. If you start planning today, you can face the future with more confidence.

How an annuity can help

An annuity is a long-term investment designed to create lifetime income in retirement. The money is allocated to professionally managed investment portfolios where it accumulates tax-deferred. When you retire, your savings can be used to generate a stream of regular income payments that are guaranteed for as long as you live. Investment returns and the principal value of an investment will fluctuate so that an investor's units, when redeemed, may be worth more or less than the original investment. In addition, variable annuities provide a guaranteed death benefit for your beneficiaries.

It's important to note that with annuities, withdrawals and distributions of taxable amounts are subject to ordinary income tax and, if made prior to age 59½, may be subject to an additional 10% federal income tax penalty, sometimes referred to as an additional income tax. Withdrawals or surrenders may be subject to contingent deferred sales charges. Prudential Annuities offers a choice of variable annuities to fit your specific retirement needs.

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