REALITIES OF HEALTH CARE IN RETIREMENT

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Introduction

Financial security in retirement is best achieved with the help of a comprehensive plan. A written financial plan can clearly outline a strategy to help create retirement income that you may count on to meet the potential expenses that may arise throughout retirement. As individuals approach retirement age, the planning challenge is centered less around accumulating wealth and more on how wealth can be used to generate sufficient income for a lifetime.

As you develop a plan, it’s essential to understand and then prepare for the impact of health care expenses. Many people overlook this, thinking Medicare will cover them. While Medicare does represent the cornerstone of health care coverage for most retirees, it isn’t free, nor does it cover everything.

To protect your financial security and lifestyle options over time, a plan should address the dual issues of increasing longevity and the likelihood of long-term care needs. This report provides insights that support realistic planning. Here are some key considerations to keep in mind as you plan for health care needs in retirement:

– Gauge your potential longevity, based on family history

– Know that Medicare covers immediate medical expenses but does not cover everything—there are out-of-pocket expenses such as premiums, deductibles, dental and vision

– Plan for the potential need of long-term care services

– Prepare a strategy for health care expenses that will help protect your retirement savings

Some expenses in retirement are fairly predictable, like housing and transportation, while others are likely to vary over the years. No expense is more variable than health care, particularly given current life-expectancy trends.

A male aged 65 today will live to an average age of 82.9. A female aged 65 today will live, on average, to 85.5.¹ As this is only the median life expectancy, it indicates that half of Americans are likely to live beyond the average. You could spend 20 to 30 years in retirement, increasing the likelihood of unexpected expenses related to a health event.

Health Care: A Guide to Retirement Planning

Calculate costs: Preparing for unpredictable health events

Baby Boomers identify health care costs as their top financial concern in retirement. They’re gaining firsthand experience as they watch aging parents and relatives deal with complex medical challenges and utilize more health care services.

Nationally, per capita spending for personal health care rises sharply as individuals get older, but the need for care can vary significantly from one person to the next.

To complicate matters, health care spending continues to rise significantly faster than the broad rate of inflation. So while these factors make it difficult to gauge the exact amount of money that should be set aside, one study shows that a couple at age 65 can expect to pay nearly $395,000 for dental, vision, hearing and medical expenses as well as co-pays and other out-of-pocket expenses throughout the rest of their lives.\(^1\)

\(^1\) Healthview Services: 2015 Retirement Health Care Cost Data Report.

\(^2\) National Health Expenditure Projections 2012–2022.

\(^3\) November 2014 Bureau of Labor Statistics.

Per capita spending for personal health care rises dramatically as individuals grow older.

Prioritize planning:
Retiring before Medicare eligibility

Given the trend of lengthening life spans, it’s important to time retirement with care. Retiring early may be a choice for individuals who know they have sufficient funds to meet expenses. However, in many cases, unexpected changes in employment or health may force some people to retire earlier than they expected.

Regardless of when you begin your retirement, a top priority for your retirement plan is to figure out how to pay for ongoing health care coverage. Medicare, the cornerstone of health insurance for most retirees, is not generally available until individuals reach age 65. Retiring prior to that age can add a level of unexpected expense. For example, if an individual retires at age 62, they will still need to plan to cover three years of health insurance premiums, which average $522 monthly or $6,624 per year. In addition, they will need to cover out-of-pocket expenses, which could easily run into tens of thousands of dollars.³


² MetLife Mature Market Institute, “Transitioning into Retirement,” April 2012.

Estimate needs: Creating your health profile

A financial professional can help you create a plan to cover health care expenses in retirement. Begin by creating a health profile that includes:

- A realistic estimate of your longevity, based on gender, family history and current life expectancy data
- Expected insurance costs, including premiums, co-payments and deductibles
- Anticipated expenses for prescription drugs, medical equipment and supplies, vision care, hearing aids and modifications to your home, to make it more livable as you get older
- Potential long-term care costs, either in-home or in a facility—keep in mind how inflation may affect these expenses
- Understanding the benefits available to you, including a Health Savings Account and Medicare Parts A, B, C and D
- Impact of not creating a plan

Health care costs are the second largest expense in retirement, only second to housing when it comes to major expenses.1

4 out of every 10 Americans who reach age 65 will enter a nursing home at some point in their lives. Approximately 10% of those who enter a nursing home will require a stay of 5 years or longer.2

It is estimated that healthy couples retiring at age 65 can expect to incur $267,000 in medical costs during their retirement years.3

Clarify the basics: Medicare programs

It’s important to acquire a basic understanding of Medicare, the federal insurance program for seniors. Medicare is comprised of several programs or “parts,” and much of it comes with a cost. You become eligible for Medicare at age 65. If you are already taking Social Security benefits at that time, you are automatically enrolled in Medicare Part A. If you aren’t yet a Social Security recipient, you have a seven-month window around the month of your 65th birthday to enroll.

Medicare Part A, available to most people without a premium, helps cover the costs of inpatient care in hospitals, and other select facilities for a specific length of time. Medicare Parts B, C and D, and Medigap cover additional expenses that are not included in Part A coverage, and require premium payments. As you strategize paying for your health care in retirement, keep in mind that Medicare covers only about 62% of total health care costs and does not include long-term care coverage.¹

Sources: www.medicare.gov

² www.medicare.gov.

About Medicaid

Medicaid is a government safety net program for people who don’t have the financial means to pay for treatment. As a retiree, virtually all of one’s financial resources must be exhausted in order to qualify for Medicaid.

Medicare programs with premiums are income related. In 2015, Part B premiums range from $104.90 to $335.70 per month. Part D premiums range from $12.30 to $70.80 per month.²

For more information about government programs, visit:
www.medicare.gov
www.ssa.gov
www.eldercare.gov

MEDICARE IS A SERIES OF SEVERAL PROGRAMS

| Medicare Part A  >  | Hospital insurance |
| Medicare Part B  >  | Medical insurance |
| Medicare Part C  >  | Medicare Advantage Plans |
| Medicare Part D  >  | Prescription drug coverage |
| Medigap  >  | Medicare supplemental insurance |

Medicare Parts B, C and D, and Medigap require premium payments.
Save strategically:
Health Savings Account (HSA), pre-Medicare

If you’re still pre-retirement or have not yet enrolled in Medicare, and are actively employed, you have an additional option for building the necessary savings for downstream health care expenses: a Health Savings Account (HSA).

An HSA is an individual account, typically offered through employer-sponsored health care coverage or on the individual insurance market. These accounts are used in conjunction with high-deductible health insurance plans to cover qualified medical expenses. You can set aside pre-tax dollars in your HSA, then withdraw the funds as needed to pay for out-of-pocket medical expenses, such as the “deductible” portion of health care services or co-pays to medical providers. The funds you set aside in an HSA grow on a tax-deferred basis, without any taxes due, as long as you spend the money on qualifying medical expenses.

The great advantage of an HSA is that the money you don’t use can simply continue to accrue, giving you a source of health care funds in retirement. Additional HSA benefits include:

- Potential for deducting contributions to an HSA plan from your current income
- Continued tax-deferred compounding of earnings inside the account
- Withdrawals for qualified health care expenses with no tax liability
- Ability to allocate the balance to a variety of investment options
- After age 65, HSA holders (or beneficiaries) can distribute funds for non-medical reasons without paying a penalty, although there will be income taxes on the distributions. However, you can avoid income taxes if you continue to use the distributions for medical purposes.
Draw down advantage:
Health Savings Account (HSA), post-Medicare

Once you enroll in Medicare, typically at age 65, contributions to your HSA can no longer be made. However, you can make withdrawals from the account to cover such costs as insurance premiums (including Medicare Parts B, C and D, and Medigap) and other out-of-pocket medical expenses. Unreimbursed medical bills may be deferred until retirement, at which time withdrawals for previously incurred expenses may be made.

If one spouse dies with an HSA balance, the surviving spouse can inherit the account and continue using the money as a tax-free source of funds to pay qualifying medical expenses. In the case of a non-spouse heir, when a balance remains after the death of the account holder, the money may become taxable on the deceased person’s final tax return.

38% of Americans report difficulty paying health care bills, with 27% using up most or all of their savings to do so. 16% borrow funds in order to cover their health care bills.1

If provided, the Health Savings Account (HSA) is a custody account with U.S. Bank serving as the custodian. Terms and conditions of the HSA are included in your HSA Application and Agreement. For the U.S. Bank HSA, your funds maintained in the Cash Account are FDIC insured subject to the FDIC insurance coverage and insurance limits allowed by law. FDIC insurance is calculated by end-of-day ledger balances in your deposit account which may include funds deducted from your available balance for investment purchases that have not yet settled. U.S. Bank and its representatives do not provide tax, legal, or investment advice. Clients should consult with their tax, legal, and financial advisor for advice and information concerning their particular situation.

1 2013 Health and Workplace Benefit Survey.
Questions to consider when planning for possible long-term care needs:

- What impact would the expense of a significant long-term care event have on your retirement savings?
- How do you and your family feel about having family members take on the challenge of being your primary caregiver?
- How much of the potential long-term care expenses would you be willing to pay for out-of-pocket?
- Would you prefer to receive care in your home, in an assisted living facility, or in a nursing home? What are the daily costs for care in your community?
- Are you a business owner who may be eligible to deduct premiums on long-term care insurance?

Maintain independence: Long-term care needs

As you develop your retirement plan, you will need to determine the potential impact of long-term care expenses and the likelihood of need for both you and your spouse. Long-term care includes services that assist in meeting basic daily needs over an extended period of time—like bathing, dressing, eating, toileting, in-home mobility, meal preparation, housework, administering medications, shopping for groceries and other basic necessities. Options for receiving these care services can take place at your home, through an assisted living facility, nursing home, or at an adult day care community.

Many retirees or those nearing retirement have not purchased long-term care coverage. Currently, family members and friends are the sole caregivers for at least 70% of those who require high-level care.¹ While this helps reduce expenses, this can place a significant burden on those close to the person who needs daily assistance with their basic needs.

FINANCING LONG-TERM CARE

The vast majority of retirees or those nearing retirement have not purchased long-term care coverage. When surveyed about how they plan to finance long-term care needs, respondents answered in these ranked categories.

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Method</th>
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<tbody>
<tr>
<td>42.5%</td>
<td>Personal savings</td>
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<tr>
<td>32.2%</td>
<td>Private policy</td>
</tr>
<tr>
<td>21.0%</td>
<td>Spend down assets</td>
</tr>
<tr>
<td>16.3%</td>
<td>Medicare</td>
</tr>
<tr>
<td>14.9%</td>
<td>Sell home</td>
</tr>
<tr>
<td>14.9%</td>
<td>Not thought about it</td>
</tr>
<tr>
<td>8.2%</td>
<td>Access home equity</td>
</tr>
<tr>
<td>2.2%</td>
<td>Rely on family</td>
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Select appropriate coverage: Long-term care insurance

Medicare and other types of health insurance cover immediate medical requirements, but do little to cover the cost of long-term care services. By including long-term care coverage in your retirement plan, you help protect your financial assets from being depleted, maintain your ability to choose where you receive your care and eliminate concerns about becoming a burden to family members, either financially or as caregivers.

As you explore long-term care insurance options, pay close attention to what the policy covers and how appropriate that coverage is likely to be depending on your situation. For example, it helps to understand the difference between a diagnosed “chronic” and a “critical” illness, since the way a physician categorizes an illness may impact how an insurance provider will reimburse expenses.

A chronic illness is one that is likely to last the rest of an individual’s life. In short, the patient is not expected to overcome the condition. Diabetes or advanced Alzheimer’s disease are examples of chronic illnesses. A critical illness can be more serious than a chronic illness in the short term, but the patient is expected to recover from it. A heart attack or a treatable cancer are examples of a critical illness.

Careful planning in advance, including a review of your current or proposed coverage by a licensed insurance professional, can help you protect against unpredictable health care expenses.

Consider additional options for long-term care coverage

Private coverage to help offset the costs of long-term care can come in different forms. You can combine different approaches to get the coverage you need at an overall cost that's right for your situation.

Life insurance or annuity policies with long-term care benefits can allow prepayment of a portion of the death benefit if the insured qualifies under the terms of the policy. Annuity contracts also offer benefits that allow owners to access cash values free of surrender charge to pay for qualifying long-term care expenses.

A hybrid policy may be appropriate for individuals who had planned to self-fund for potential long-term care needs. By reallocating a portion of assets to a hybrid policy, they can create a larger pool of assets to meet long-term care needs. These policies are often funded with a single premium (lump sum payment), which could derive from different sources. Make sure you completely understand the terms of such a policy and the levels of care it provides.
Health Care: A Guide to Retirement Planning

Warning signs

An inability to control and manage household finances may be a signal that memory issues are developing. Other telltale signs are an increasing number of late-payment notices or difficulty organizing bills and statements. Other indicators include:

- Challenges planning or solving problems
- Difficulty completing familiar tasks at home, work or in leisure activities
- Confusion about time and place
- Misplacing items and difficulty in retracing steps
- Withdrawing from social situations
- Changes in mood or personality

Cope with the diagnosis:
The reality of dementia

No matter how carefully we plan for the financial aspects of retirement, it’s still hard to prepare for the emotional challenges of the aging process. A diagnosis of dementia is especially difficult, whether it affects you directly or someone you love.

Dementia is not actually a disease but a condition that describes a decline in memory or other thinking skills in people who were once healthy and vigorous. Over time, the condition diminishes one’s ability to perform normal activities and tasks of daily life. While “Alzheimer’s disease” is a prominent type of dementia in elderly and even middle-aged adults, it’s only one of many forms of dementia. Alzheimer’s disease typically progresses through a series of stages that can last 8–10 years, ranging from little-to-no impairment to a severe decline that requires full-time nursing care.

Alzheimer’s can be one of the most financially devastating diseases. The average cost of care for people with Alzheimer’s or other forms of dementia is $56,800 annually. Sixty percent of this cost, or $34,500, is often covered by caregivers and the rest of the family.¹

It’s estimated that nearly 14% of Americans age 71 and older have a form of dementia,² while 45% of those over age 85 are diagnosed with the condition. Diagnosis is rare at younger ages, but one in eight Americans under 65 shows some signs of the condition.

¹ The Shriver Report: A Woman’s Nation takes on Alzheimer’s.
Prepare for financial impact: Long-term dementia care

It’s important that any retirement plan consider the costs of care associated with dementia, with strategies such as long-term care insurance and a designated pool of savings for medical needs.

While Medicare and supplemental health insurance typically cover physical ailments and diseases such as cancer and heart conditions, the same is not true for a significant portion of Alzheimer’s and dementia care. The costs associated with treatment and care of patients who need full-time care can be financially crippling to families. For example, the cost for care in a skilled nursing facility averages $6,690 per month, but can easily reach $10,000 per month.1

In a situation where someone has recently received a dementia diagnosis, it’s wise not to delay. The diagnosed individual should write a health care directive and designate a financial advocate who can make decisions as the condition progresses.

For more information about Alzheimer’s, visit: www.alz.org

MANAGE THE SITUATION

If an individual has been diagnosed with a form of dementia, it is important to put a strategy in place to deal with what’s ahead. Steps you can take include:

- Holding a family meeting to discuss finances and wishes for future care
- Estimating possible costs to deal with the disease over the long term
- Organizing and reviewing all relevant documents, including all available insurance coverage
- Determining eligibility for government programs and other financial assistance alternatives
- Identifying low-cost or free community services that may be helpful
- Exploring potential tax deductions that can be claimed related to care costs

Know your resources

Research options for support services ahead of time. Coping with dementia generally requires a team approach.

- A financial advisor
- An elder care attorney
- A financial advocate with power of attorney
- Medical professionals
- Social Security and Medicare benefits
- Health insurance companies
- Long-term care and disability insurance providers

1 2015 cost of care study from Genworth.
12 million older Americans will require long-term care support by the year 2020. Most of the care will occur in the home.¹

Caregivers also pay a physical and emotional toll while caring for ill spouses or aging relatives. A 2013 study showed caregivers incurred $9.3 billion in additional health care costs.²

In a recent survey, 46% of family caregivers spent more than $5,000 each year in caregiving costs. Additionally,
- 33% spent more than 30 hours per week caregiving.
- 66% experienced care-related distractions, such as phone calls and emails while working.
- 60% said caregiving duties had a negative effect on their jobs.³

Create a caregiving plan: Family responsibilities

It’s always advisable, and in some states required, for adult children to play a role in managing their parents’ long-term care arrangements and expenses. Currently, 30 states and Puerto Rico have parental support (also called “filial support”) laws on the books, making children liable for parents’ unpaid medical bills and sometimes the cost of their long-term care. These types of laws date back to colonial times when policy makers considered it best for family members to rely on each other, rather than public forms of support.

As America’s population ages and life expectancies increase, the demand for long-term care services will rise and the projected costs are significant. The government safety net for long-term care costs continues to shrink, which is why some long-term care providers are using parental filial support laws to enforce debt collection.

30 STATES (AND PUERTO RICO) HAVE PARENTAL SUPPORT LAWS IN PLACE

These laws were originally established in colonial times to make family members rely on each other, rather than public resources, for financial help, but a number of states began repealing the laws after the Medicaid program was established to help needy elders. Shaded states denote those with parental laws still in place.

¹ Medicare.gov.
² www.alz.org/facts.
Expect the unexpected:
Health care planning

One of the biggest challenges facing individuals and families is saving enough money to feel confident about financial security in retirement. A critical part of your comprehensive plan is figuring out how you will meet ongoing health care expenses and the cost of potential long-term care services. Statistically, health care is likely to become an increasingly significant part of your household budget, as you grow older.

Take the time now to understand your options for coverage of health care expenses, including Medicare and related plans, as well as the options for protection against the impact of expenses related to long-term care services. By working with a U.S. Bank financial professional, together you can evaluate critical issues, create a health profile and strategize a plan to manage the potential impact of unexpected health events.
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