

Planning for health care in retirement

A guide to covering your
medical expenses



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You can stay on top of health care expenses

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

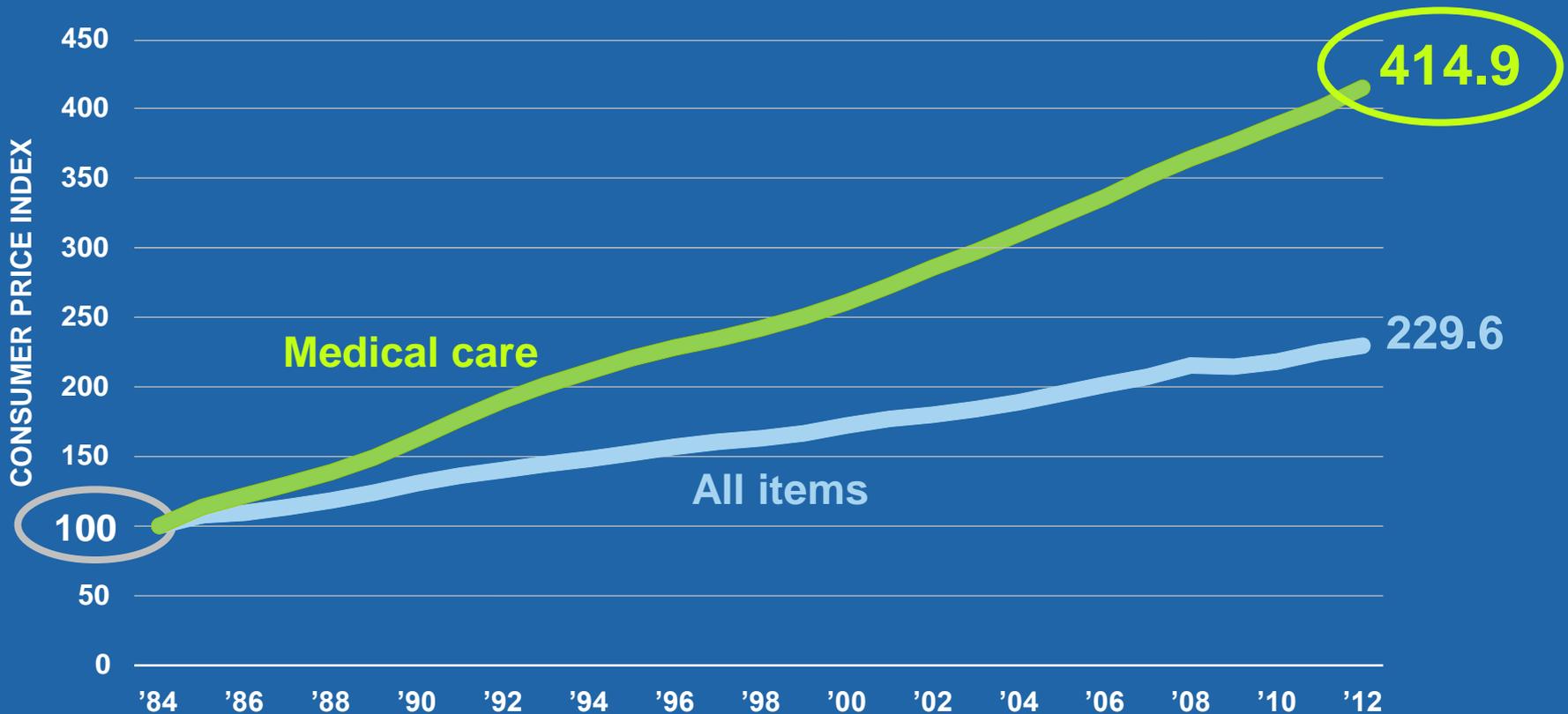
Today's agenda:

- 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



Rising health care costs – a reality of retirement

Health care costs have *quadrupled* since the early '80s



Source: Department of Labor, Bureau of Labor Statistics, Consumer Price Index, as of 11/30/12.

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.

One of the largest household budget items

1
Food

2
Health
care

3
Housing

Health care represents 20% of your total monthly expenses, on average.



Multiple factors drive up health care costs



Medical services

- Cost of knee replacements rose 70% over last decade¹

Diagnostic testing

- Cost of MRI/CT/PET scans tripled over last decade¹

Prescription drugs

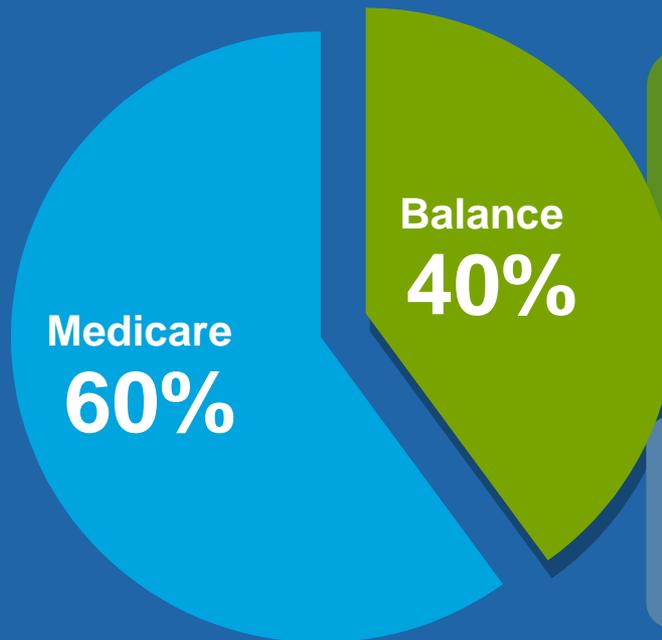
- Number of prescriptions rose nearly 40% from 2000 to 2009²

1. U.S. Dept. of Health and Human Services, 2009. Data for decade ending 12/31/2006.

2. U.S. Department of Health and Human Services, Agency for Healthcare Research and Quality, Medical Expenditure Panel Survey 2000 to 2009.

Medicare won't cover all health care expenses

Medicare may only cover approximately 60% of your health expenses¹



Out-of-pocket health care expense estimate for a 65-year-old couple²
\$220,000

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. Fidelity's Benefits Consulting, 2013. The estimate assumes no employer-provided retiree health care coverage and applies to retirees with traditional Medicare insurance coverage with life expectancies of 17 years for men and 20 years for women.

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.

Your out-of-pocket costs may vary

Individual costs depend on:

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graph TD; A[Individual costs depend on:] --> B[Personal factors]; A --> C[Your risk comfort level];
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Personal factors

- Age at retirement
- Years in retirement
- General health

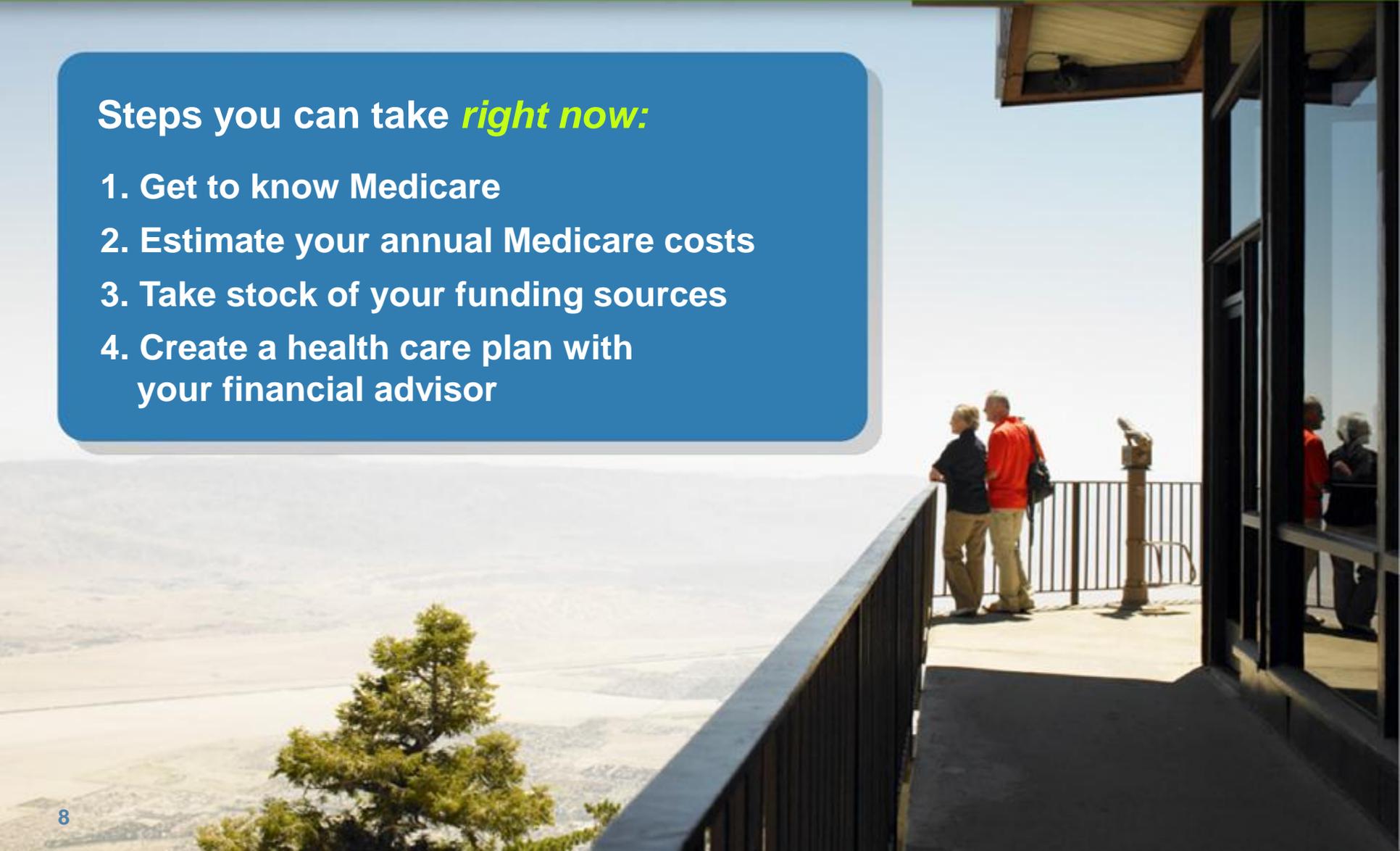
Your risk comfort level

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 D Prescription drug coverage

Medigap Medicare supplemental insurance

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 C

Medicare Advantage plans

- Similar to regular Medicare (Parts A & B)
- October 15–December 7 to add, drop, or change
- January 1–February 28 to drop existing plan and switch to regular Medicare if plan is nonrenewing
- Calendar-year enrollment
- Limited ability to make changes

Part D

Prescription drug coverage

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

Medicare Part A

Hospital insurance

In-hospital stay in 2014 (per benefit period)

Days 1–60	\$1,216 deductible
Days 61–90	\$304 per day copayment
Days 91–150	\$608 per “lifetime reserve day”
Days 150+	All costs

Medicare Part B

Medical insurance

Costs for 2014

**Monthly premium (based on AGI);
standard premium is \$104.90**

\$147 deductible

**20% coinsurance on doctors'
services and outpatient care**

Source: Medicare & You 2013, National Medicare Handbook, U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services, Baltimore, MD. CMS Product No. 10050, September 2012.

Individual with AGI of \$85,000 or less, married couple with AGI of \$170,000 or less.

Understanding Medicare

Prescription drug coverage

- You 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)

\$310 Deductible

Beneficiary pays 5% (min. copay); \$2.55 generic or \$6.35 brand

**\$4,550 out-of-pocket reached
\$6,455 in total drug costs**

Beneficiary pays \$3,605

\$2,850 in total drug costs

Beneficiary pays 25% or \$635

Beneficiary pays 100% or \$310

Source: Medicare & You 2014, National Medicare Handbook, U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services, Baltimore, MD. CMS Product No. 10050, September 2013.

Medigap

Supplemental Medicare insurance

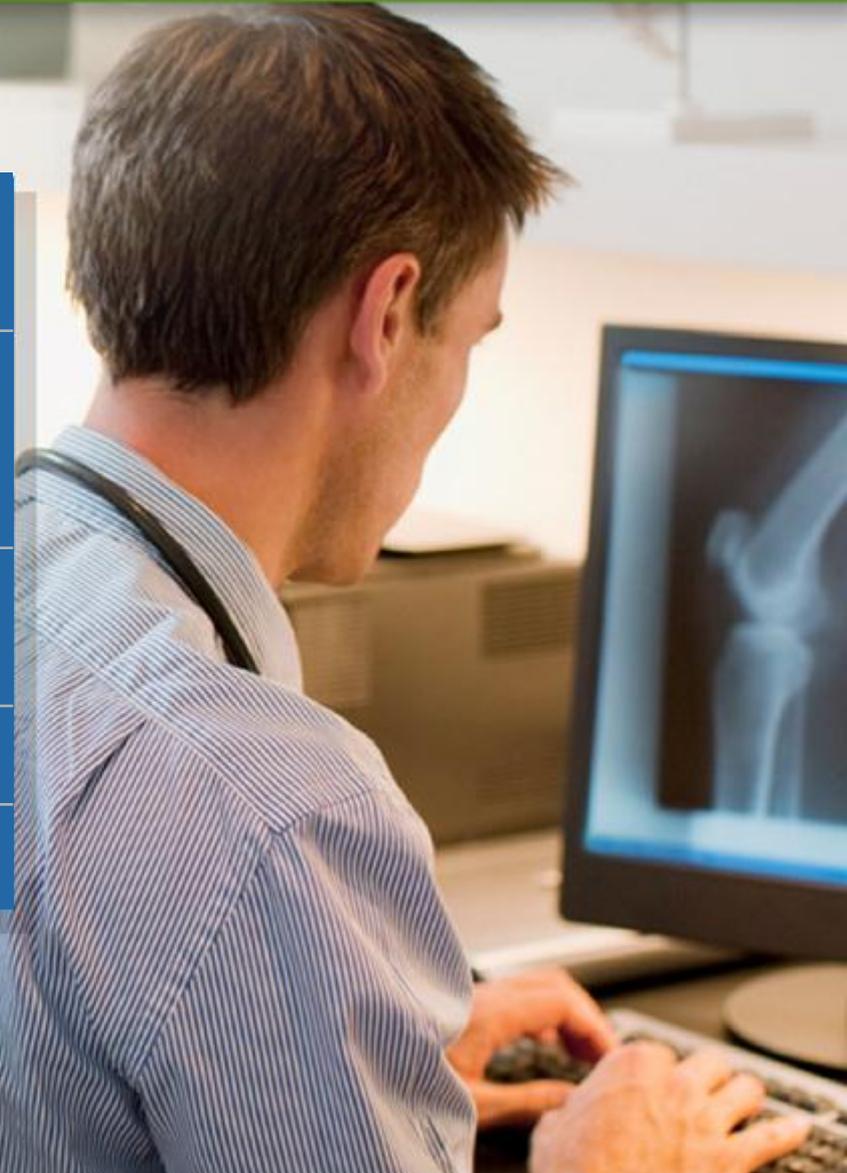
10 standard plans offering different levels of coverage

Premium cost for same coverage varies by insurance company and state where purchased

Flexibility to see any doctor who accepts Medicare

No prescription drug coverage

No coverage for dental, hearing, or vision



Medicare Part C

Medicare Advantage plans

HMOs, PPOs, private fee-for-service plans, Medicare specialty plans

Address Part A and Part B expenses and may cover prescription drugs

Costs may increase if you use out-of-network doctors

Hearing, dental, and vision may be covered



Questions to weigh when considering plan options

- 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:

Medicare costs for a couple 65 years old with <\$170K income

Part A	Covered by Medigap Plan F ¹	\$0
Part B	Premium: deductible and coinsurance covered by Medigap	\$1,259
Part D	Premium and deductibles ²	\$1,780
Medigap Plan F	Premium ³	\$2,124
Annual total	<i>Per person</i>	\$5,163
	<i>Per couple</i>	\$10,326

1. Assumes the use of Medigap Plan F, the most commonly used plan.

2. Based on the average annual per-beneficiary cost spending for Part D for 2012. The Department of Health and Human Services, 2013 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

3. Department of Health and Human Services, ASPE Report, Variations and Trends in Medigap Premiums, December 2011.



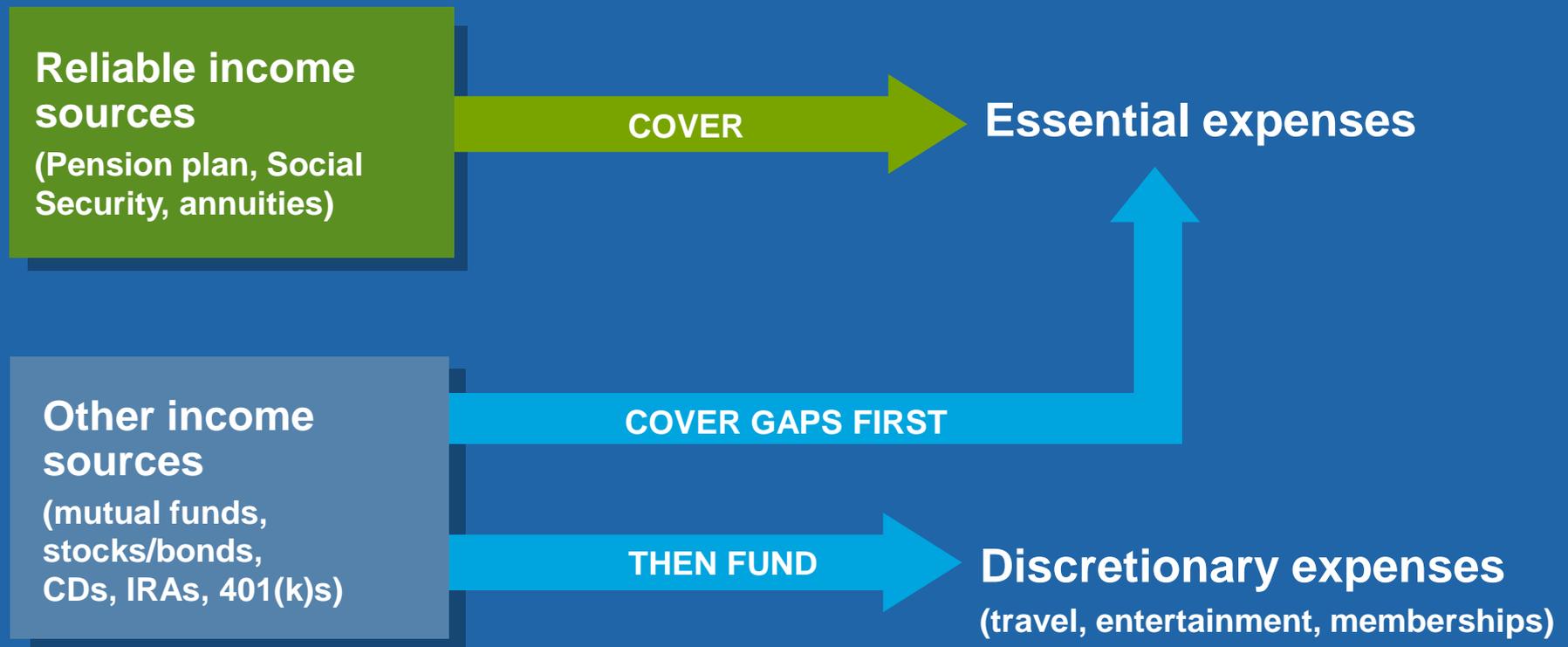
Resources to help get you started

Online resources

- [Medicare.gov](https://www.Medicare.gov)
- [Eldercare.gov](https://www.Eldercare.gov)
- [AARP.org](https://www.AARP.org)
- [State Health Insurance Assistance programs \(SHIPtalk.org\)](https://www.StateHealthInsuranceAssistanceprograms.org)
- [Benefitscheckup.org](https://www.Benefitscheckup.org)
- [Socialsecurity.gov](https://www.Socialsecurity.gov)

Take stock of your funding sources

Use your sources of dependable income to cover health care and other essential expenses



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



Important information

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