Insights Live: Planning for health care costs in retirement

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TRANSCRIPT

SPEAKERS:

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Jonathan Lamothe: Hello, and welcome to the latest *Insights* Live: Planning for health care costs and retirement. My name is Jonathan Lamothe, vice president of webinars here at Fidelity. And today, we're going to be talking about the always important topic of health care costs, specifically in retirement.

We have a lot to get through today, and we truly want to thank you for taking some time out of your busy days to join us today. Our panelists are ready to go and begin. But before we do, I do have to mention that Fidelity does not give legal or tax advice, and nothing we discuss today should be interpreted as legal or tax advice.

The information we are going to provide is going to be general in nature, and it may not apply to your situation. If you have legal or tax questions about your specific situation, we do encourage that you reach out to your tax professional or your attorney. So with that, I'd like to turn it over to our moderator today, Ben Isgur. Ben, it's all yours.

Benjamin Isgur: Well, thank you, Jonathan, and love to welcome everyone. And thank you to our viewers who are tuning in today and for submitting all the great questions during registration. And in fact, we've built a lot of this webcast around the questions that you submitted. So that's going to drive our discussion today.

Now, today's focus, as Jonathan mentioned, is really about how to prepare for health care costs in retirement. And our panelists are going to take a deep dive into a couple of different issues that make that up. So we're going to talk about Medicare. We're going to talk about planning for long-term care costs. We're going to talk about health savings accounts. All of these important topics are going to come together.

But we need to dive right in. So let's start by first introducing our panelists. And I would like them to introduce themselves and provide a bit of perspective that they're going to bring to this discussion. So Jennifer, could we start with you?

Jennifer Sellwood: Absolutely, Ben. Thanks so much. My name is Jennifer Sellwood. I'm a vice president, financial consultant, in our Minnetonka, Minnesota Investor Center. I've been with Fidelity for almost 10 years. It will be 10 years in December. And I have the absolute honor of working with clients every single day to help create their financial plans and help them achieve their financial goals.

Harold Stankard: And I'm Harold Stankard. Good morning, everyone, or good afternoon, depending upon where you're dialing in from. I'm a 26-year Fidelity veteran, and I've served Fidelity customers in a variety of different businesses. But I currently lead our Fidelity Medicare Services® team. Our goal in Fidelity Medicare Services® is to deliver industry-leading education, plan selection support, and enrollment assistance to those eligible for Medicare.

Jason Webb: My name is Jason Webb. I'm a regional vice president with Fidelity Investments Life Insurance Company. I've been with Fidelity for over 15 years, where I've spent the majority of my tenure helping clients and advisors create and implement retirement plans.

Benjamin Isgur: Well, thank you, Jason, Jennifer, Harold. We've clearly got a lot of experience on this panel to share today on this important topic of the enormous financial impact that health care costs can have. So actually, let's start with a bit of a research reveal.

So our research showed a major gap between what people think they're going to spend on health care in retirement versus the reality. So our survey showed that most couples think they're going to spend about $150,000 on health care costs in retirement—actually less than $150,000 on health care costs in retirement.

But what's the reality there? And Jason, I'd like to bring you in on this. What's a more realistic number people may want to plan for?

Jason Webb: Well, Ben, like you said, health care costs are often more than most anticipate. One of the challenges with health care costs is their unpredictable nature. Unlike other expenses that may be fixed or have a slight range, health care costs can vary person to person based on medical conditions and even where they live.

According to the Fidelity Retiree Health Care Cost Estimate, an average couple who retired at 65 just last year in 2022 can expect to pay approximately $315,000 after tax to cover health care costs in retirement. Additionally, I would point out that this does not include the cost of long-term care if needed. To make this a bigger challenge, the cost of health care typically rises faster than your average inflation year over year.

Harold Stankard: Yeah, Jason those are great statistics, very eye-opening. And I'll just add that those statistics and the unpredictability that you mentioned—I think they really underscore why it's so critical for retirees to be certain they've selected the optimal Medicare coverage for their personal needs and preferences.

Benjamin Isgur: Well, that's a great point, Harold. And thank you, Jason. And we're going to definitely dive into Medicare in just a little bit, but I want to stick with that gap issue that we have.

So most couples think it's going to be less than $150,000. As Jason told us all, it's actually going to be more like over $300,000. And maybe we could bring you in, Jennifer, in terms of, how do you approach that in terms of a planning conversation with clients? How do you help address the gaps between the expectation versus the reality?

Jennifer Sellwood: Absolutely. There is a huge misconception in terms of the actual cost of health care. So in the financial and planning process, education is really the key to building successful plans. And Jason pointed this out just with that huge disparity between reality and what people think they're going to be paying.

So with all my clients, we have in-depth conversation around the reality of health care costs—what's the most efficient way to save for them, how we're planning for these things that happen later in life. That comes through the financial planning process around health care. It's not just about those numbers. It's about the importance of understanding each individual and their personal health situation.

Health care can happen very suddenly, as I'm all too well aware. I'll share with you a personal story of mine that makes me very passionate about the work I do with clients in this space. I went in for a routine checkup in February of 2020 and at the time was a seemingly perfectly healthy 44-year-old woman. Two years—two weeks later, excuse me, I was diagnosed with aggressive cancer and was scheduled for surgery, which revealed that the cancer had spread throughout my entire lymph system.

So this type of news is obviously shocking, to say the very least. So in addition to panicking and wondering how I was going to make it through it, I began my treatment and started a journey I never, ever envisioned that I would be on.

I can tell you from my experience that when a health crisis occurs, the very last thing anyone should want to worry about is how to pay for it. Because in these moments, survival is absolutely the most important goal, as opposed to worrying about the finances behind that actual situation.

I'm three years into my journey and happy to say that there is a little bit of light at the end of the tunnel. But my perspective is, without a doubt, altered forever when it comes to health.

So having experienced this health care crisis firsthand, like I said before, I'm extremely passionate about helping my clients be well prepared should they go through something similar. I mean, we can obviously never truly be prepared for receiving a terrifying diagnosis, but we can have conversations early on in the planning process so that we can actually plan for the unexpected should they happen.

Benjamin Isgur: Well, Jennifer, thank you for sharing that personal story. And we're glad you're here. And I think you're hitting on something incredibly important, that there's a lot of humanity to what we're talking about today and a lot of challenges. And we're already starting to discuss some of those challenges. But we also are going to talk a little bit about ways to manage some of those retiree health costs.

So Jennifer said, hey, it's great to have the health cost part underway when you're dealing with a health issue. So the question becomes, how do most people think they're going to pay for their health care costs in retirement?

Well, our survey showed that the number one answer was Medicare, and that makes a lot of sense. Most people think that that's the way that they're going to pay for their health care costs in retirement. By the way, our second response to that was, I don't know. So that's part of what we want to shed some light on as well, for those that don't know or maybe don't think that Medicare is going to meet that gap.

So our survey said, Medicare, number one response. That gets us into Medicare, which is not a monolithic program. And Harold, we're hoping you can shed some light and walk us through, what does Medicare coverage look like?

Harold Stankard: Sure, Ben. Thanks. Let's start with original Medicare. So original Medicare is made up of two parts—Part A, which is hospital insurance, and part B, which is medical insurance. Together, those two parts, part A and B of original Medicare, help cover things like in-patient hospital care, routine doctor visits, ambulance services if needed, and durable medical equipment as needed—things like that.

But original Medicare does not cover some of the benefits that many of us are used to, like dental, vision, hearing, and prescription drugs. So in addition, and perhaps most importantly, original Medicare only covers 80% of your health care costs. So that means that 20% of all the health care expenses you incur each year, without limit, are paid out of pocket by the individual.

Now, in a year where you remain relatively healthy, that may not be a big deal. But all it takes is one extended hospital stay or an unexpected diagnosis for those costs to really add up. To help cover those expenses that original Medicare does not cover, people can enroll in additional coverage, and many people do just that.

These are the types of plans that many of you have heard of, including Medicare Advantage plans or Medicare Supplement plans, which are sometimes referred to as Medigap, as well as prescription drug plans. In addition, there are standalone plans for hearing, vision, and dental. Bottom line is it's certainly important to review and understand all of these various options available for the level of coverage that an individual prefers.

Benjamin Isgur: Well, Harold, I think what you're saying is, when we think about Medicare, it is not monolithic. It's almost more like a menu. And whenever I go to a restaurant and I think about a menu, it means I've got to make some decisions. So what type of decisions do you see people needing to make or at least think about for Medicare coverage?

Harold Stankard: That's actually a great analogy. And there are a few key decisions for individuals to consider. First, I'll start with two common misconceptions that are associated with original Medicare. These are very common—one, that it will kick in automatically when I turn 65, and that it's entirely free.

Individuals not yet receiving Social Security likely need to apply for their coverage benefits. And while, generally speaking, most people will receive their part A coverage without paying any premiums as long as they've worked 10 years or 40 quarters, part B coverage does have a cost. It has a monthly premium. And that premium is based on your personal income level. So it's, right out of the gate, good to understand those common misconceptions and the steps you have to take to understand them.

In addition to those considerations, one of the initial decisions people need to make when they start Medicare is, as I just referenced, whether or not they'd like to enroll in any additional coverage to help cover those costs that original Medicare will not cover. And if so, what type? Or what do they want to order off the menu?

Most people tend to choose between a Medicare Advantage plan, which typically has broad coverage and is sometimes referred to as an all-in-one plan because it has many items on the menu available to you. Or a Medicare Supplement plan, also known as Medigap, along with a prescription drug plan to complement that—more of a combination plan approach, if you will.

And there's a lot that goes into trying to make that decision between which route to go. Are you someone who wants the freedom of choosing any doctor or hospital you want versus having to stay in a particular network? Do you plan to travel frequently and need coverage that will go with you anywhere in the country?

Are you more comfortable paying higher monthly premiums to insure little-to-no cost when you actually need care? Or would you rather pay less upfront each month in premiums, knowing that you'll have more out-of-pocket expenses should you need services in the future?

It's not always easy to make a change to the type of coverage once you've enrolled. And in some instances, some level of medical underwriting may be required to switch plans in later years. So it's a good idea to weigh all of the various factors when enrolling in the coverage that's best for your situation right at the start of your Medicare journey, which is typically at age 65. Helping people navigate all of these different options and making informed decisions about that additional coverage is a big part of what we do at Fidelity Medicare Services.

Jennifer Sellwood: Harold, I just wanted to piggyback on that, too, in terms of my face-to-face connection with clients on a daily basis, that you're absolutely right, that there is huge misconceptions about Medicare. And what you said is exactly accurate.

So for example, I have lots of clients who intentionally want to work till age 65 because that's when they are Medicare eligible. Makes sense logically, right? One of the biggest concerns that we have in terms of transitioning to retirement is health care costs.

However, Medicare premiums are based on a two-year lookback on income. So if we think about being in our highest income years right before retirement, actually working until age 65 could be a detriment in terms of our Medicare payments.

So this is just an example of having that open communication with clients to say, all right, we know health care is a concern in terms of how you're paying for it in retirement. However, how can we be most efficient? And maybe that means retiring early so that we have that Medicare premium actually be more in line because of that two-year lookback. So just wanted to jump in there and give an example of really what the planning conversation looks like when we start digging into the Medicare side of things.

Benjamin Isgur: Well, I love that, Jennifer. And I think Harold laid out for us that—the different menu of options and a lot of choices there. And I think you brought in the nuances that we have to look at around each of those choices. So a good, complete picture.

One thing that we didn't mention during this conversation is long-term care. It's not covered by Medicare, but we know that long-term care can be a major expense and a major cause of stress. So let's dig in, just for a little bit, about what long-term care is.

So when we say long-term care, we're talking about things that are typically not traditional medical care, but they are things that are important for independent living. So you may hear about these items called "activities of daily living." And so these are the things that allow us to be independent, so they are things like bathing, being able to dress ourselves, being able to move in and out of a bed or in and out of a chair, eating, using the bathroom, continence issues.

So all of those issues are in this group called "activities of daily living." When you're not able to perform them or more than one of them, or you have cognitive decline on its own or with them,

that may result in you or a loved one not being able to take care of yourself, regardless of your other health needs. So that's the issue around long-term care. It's about those non-health issues that allow us to live independently.

So that's something we know we need to cover. We've had a lot of questions about that on the registrations. And so, Jason, let's bring you in to shed some light on what we know about the likelihood of someone on this call needing that type of care and what some of the costs may be.

Jason Webb: Yeah. I appreciate that, Ben. And I'm glad that you bring up long-term care. This is an important topic that can have a substantial impact on individuals, families, and their retirement plans.

For someone turning 65 today, there's almost a 70% chance of needing some type of long-term care coverage during retirement. Now exactly what that coverage looks like can vary, but here are a couple statistics that we do know.

According to a study from the US Department of Health and Human Services, the average use of long-term care services is three years. We also know that 20% of individuals will need long-term care for five years or longer, especially those suffering from cognitive impairments like Alzheimer's or other causes of dementia.

From a cost perspective, the cost of long-term care can vary based on things like where a person wants to receive care. Is it at home, an assisted living facility, or nursing home? Additionally, where a person lives geographically and the level of care needed have large impacts on that cost.

One last point, when looking at long-term care costs, is the dramatic increase that we have seen over the last 17 years. To use one example, we have seen an average cost of an assisted living facility rise by 88% over this time period. Additionally, you take into account the fact that there are 10,000 people turning 65 every day, the chances are these costs will most likely continue to rise.

Benjamin Isgur: Well, Jason, I think those are some very sobering stats. And now we're starting to learn that more of us are going to need it than maybe we think, and the cost may be higher than we think or were planning for. I guess that brings up the question of, what are some solutions around that? And that brings us to the issue of long-term care insurance.

And I would ask you, Jason, please, tell our audience, what does that process look like? And maybe what age should that process start?

Jason Webb: Yeah. So I'll start by saying, it is never too early to start planning for long-term care. In fact, the younger you are, typically the less it's going to cost to have coverage. In my experience, people typically buy long-term care when they're in their 50s. At this stage of life, it tends to be

more affordable, and they're less likely to have a medical issue that might potentially disqualify them from purchasing a policy.

Now, this does not mean that people cannot explore long-term care coverage earlier or later in life. With all that said, I believe the process starts with simply understanding the options for how a person can cover long-term care costs. And I can boil this down to four different ways.

The first way is through personal savings. This option allows for flexibility and growth potential, but it should be limited to individuals or families that have adequate savings to cover the possible costs, which could be substantial.

The second is government assistance. Now, although this could be an option, it is important to understand there are very limited benefits here. As an example, Medicare provides limited benefits for skilled care only when recovery or rehabilitation is expected. Additionally, Medicaid has state eligibility requirements and is designed to help people with lower income who have depleted their assets.

The final two options are versions of long-term care insurance, the first of which being traditional long-term care. This is the most common type of long-term care insurance out there. This can offer a high degree of personalization, allowing policyholders to select things like how long they want the coverage to last or how long they'll have to wait before receiving benefits. Unfortunately, many insurance carriers no longer offer traditional policies, and those that do may raise the annual premiums after purchase.

The final option is what we refer to as hybrid policies. These policies combine long-term care benefits with life insurance or annuities. A combined life insurance and long-term care policy, as an example, allows people to use a portion of their savings to create a larger pool of long-term care benefits, but also allows for a life insurance death benefit to be passed on to beneficiaries if long-term care ultimately is not needed.

In the end, there are different options out there for people to consider. What is right for an individual or family will largely depend on their personal and financial situation.

Jennifer Sellwood: Jason, you are so correct in the fact that it's never too early to plan for long-term care. I think this is going to be a common theme throughout our conversation today is just the planning process. So again, bringing that planning to life a little bit when I talk to clients every single day.

Thank you so much for highlighting those four places to actually pay for long-term care. I think that's wildly beneficial. We have that conversation in terms of face-to-face with clients. And fortunately, at Fidelity, we have a phenomenal team of long-term care consultants.

So after I have that conversation with my clients, we can invite one of those consultants in, and they can explore all of these options in great detail so that we know each individual client, each personal need. We can make sure that we have the right solution for individual clients to come in. So I just wanted to add that to it. But thank you so much for sharing those four ways to pay for long-term care.

Jason Webb: Absolutely.

Benjamin Isgur: Well, and I think, just to summarize, when we think about long-term care, going back from the top, look, this is about our being able to live and our family members and loved ones being able to live independently. Jason showed us that more of us are going to need it than maybe we expect. That's just what the numbers show. And it's costly. And again, the numbers showed that as well.

So that drives us right into, decisions need to be made around the different options. And I think, Jennifer, you brought it home with, that's where the planning process really starts. But let's just pivot just a little bit because there's other potential solutions out there, when we think about what's in our quiver, to deal with health care costs and retirement. The other solution that's available out there to manage retiree health costs is the health savings account.

Now, these accounts are paired with a qualified high-deductible health plan. They are triple tax advantage. And the interesting thing is these accounts have options in terms of they can be used to pay for current health costs, but they can also be saved or invested for future health costs. So Jennifer, would love to bring you back in and give us what you're seeing with your clients in terms of, do people know they can be used for retirement?

Jennifer Sellwood: Absolutely. So health savings accounts are incredibly common when it comes to save for health care costs because they're so efficient. Anybody can open and contribute to an HSA if you're covered by an HSA-eligible high-deductible health plan. So the actual process of opening and funding an HSA is very, very simple. I think the important thing here, again, is just that education around how it may help in terms of your specific retirement needs.

So the advantages in a health savings account—excuse me—are—there are so many of them. Your annual contribution—reduce your income tax in the year you contribute to your HSA. So it's a direct deduction from your income. All of the money within the plan actually goes tax-deferred, and it's tax-free when used for qualified medical expenses.

So as you said, Ben, it's triple tax advantage. And if we can get any advantage in this space, we want to. I get a lot of questions around the "qualified" medical expenses because, oftentimes, when we hear the word "qualified," we immediately assume that we're going to have our hands tied and these things aren't going to be flexible.

That said, within an HSA, qualified medical expenses are actually pretty wide. So it covers the obvious—medical, dental, vision—but then there's other things like counseling, acupuncture, things that we might do on a regular basis that we can also use these funds for.

In addition to that, at the age of 65, HSAs can be used for non-medical expenses. And you're not subject to a penalty should you take distributions to pay for non-medical expenses. So they can be a really great way to save in a tax-efficient manner.

Another great, flexible piece to the HSA is the money stays with you. So I tell you this because, unlike different types of savings plans, you do not have to use all of this money in a year. It can grow tax-deferred, and you can use it later in life as we mentioned. But also, if you move to a different state, if you change employers or become unemployed, or if you change your health plan, those HSA dollars are still yours.

I will note here, though, if you change health plans to a noneligible health care plan, you would no longer be able to contribute to that HSA, but you can still use the money in it for qualified medical expenses whenever you see fit.

Benjamin Isgur: Well, thank you, Jennifer. I think that's some great insight around it. And by the way, I think the data backs you up, that you do have your work cut out for you in terms of talking about HSAs. Our survey showed that only 13% of people with employer-based benefits plan to use their HSA for retirement health care costs. So a lot of opportunity there.

So with that in mind, let's keep going with our list around ways that people can get the most out of their HSAs. And Jennifer, I'll lean on you, again, to continue that conversation.

Jennifer Sellwood: That is a very interesting statistic. I think sometimes in our industry, we take for granted that we hear this jargon all day, every day. So always a good reminder that we want to make sure that we're communicating really openly about all these benefits.

So as mentioned, we know that HSAs are tax-efficient. But another nice thing about the HSAs is that they can be invested for potential growth over the course of your lifetime. So most HSA accounts have investing available within them, and they're super flexible.

So depending on the HSA you're in, you can invest in stocks, bonds, funds, et cetera. And I have these conversations on a regular basis to decide what makes the most sense to invest within those HSAs. Of course, we want to be cognizant of time frame, risk tolerance, and all of those good things. But they are an absolute phenomenal way to save in terms of having that potential long-term growth by being invested.

Because of that—and this, to your point, Ben, is maybe a great place for us to educate—is that they're such an efficient savings vehicle that it may make sense to pay medical expenses out

of pocket and view the HSA as a long-term savings vehicle. So instead of just paying—as we're working through our lives, paying out of the HSA, let that HSA work for us, grow tax-deferred, and use it later in life.

A really nice benefit to HSAs is they have no income limits. So everybody with a high-deductible health plan can open and contribute up to the IRS limit in them annually. And of course, they receive the favorable tax treatment and potential long-term growth within the HSA. So a lot of times, these make sense to fund as we're going through our working years, but then not actually tapping into these dollars until later in retirement.

Harold Stankard: Yeah. Jennifer, those are great benefits to the excellent features of an HSA account. And from a Medicare standpoint, I just want to mention that it's also important that if you're contributing to your health savings account and approaching the time when you're going to enroll in Medicare, it is important to coordinate your final contributions with the start of your Medicare coverage to avoid any unnecessary tax penalties. So just yet another area that people should review or consult with a professional to help avoid those penalties.

Benjamin Isgur: Well, Harold, great point there. I'm going to keep you on the hook just for a little bit, though, because speaking of costs, I think the question often comes up, what about the cost of Medicare?

I hate to go back to my analogy I was using before about on the menu buying a meal, but does the meal cost the same year to year? Or can it change? Can the Medicare cost change for people?

Harold Stankard: Great question. And yes, it can change. In fact, it's quite common. Each year, Medicare beneficiaries receive an ANOC. That's the industry term we use for the Annual Notice Of Change, ANOC. And that annual notice of change highlights for people their planned premium and out-of-pocket cost changes for the next year, as well as any potential changes to their coverage that their plans may be incurring.

In addition, Medicare Part B has monthly premiums that are set by the government. And they can also change each year. Those premiums can also be subject to a surcharge that is scaled based on your income. So a change to your tax-filing income levels could also affect how much you're paying for your Medicare Part B premiums each year.

Beyond cost changes, there are several other reasons why it's smart to invest a little time each year doing a holistic checkup of your Medicare coverage. There may be ways to reduce your premium payments. New plans are brought into the market each year that may have lower cost or broader coverage than your current plan. Or your health situation may change—maybe a diagnosis or a new prescription drug. All good reasons why to review coverage annually.

I recently sat in on a customer appointment that was a perfect example of a Medicare coverage review. We met with a husband and a wife, both of whom had been on Medicare for several years. And each of them had a Medicare Supplement plan and a prescription drug plan.

We reviewed all four of those plans. And at the end of the conversation, we made a mutual decision to keep both the Medicare Supplement plans for husband and wife and for the wife to keep her prescription drug plan. We did, however, recommend that the husband change his prescription drug plan because, due to a new medication he had recently been prescribed, he was able to change plans and save more than $1,600 annually based on that new prescription.

Now, that kind of savings doesn't always happen, but it does highlight the fact that no matter how long you've been on your current plan, it's always a good practice to review your coverage annually or at least every couple of years.

Benjamin Isgur: Well, great point, Harold. Always worth digging in. Well, we've covered HSAs. We've covered Medicare. We've covered long-term care insurance. Let's get to the more of the human side of what goes on with these decisions. And often, these health care decisions fall to family members. And Jennifer, I was hoping you could give us some of your experiences with working with people as they plan ahead to help families manage all of these possibilities.

Jennifer Sellwood: Yeah, absolutely. In addition to education around the cost of care, which is obviously important, it's also wildly important to have the family conversation around this topic because it's obviously very personal, et cetera. And it's just important that we dig deep and really understand what's important to people.

The communication behind why, how we're preparing for health care is the important piece here. Trust me. I completely understand that talking candidly about our mortality is not an easy or fun conversation to have, but it also has to happen.

One example of this, I received a call last week from a wife of a client that I had recently started working with. And she shared with me that, unfortunately, her husband had passed away a few weeks prior to. I had just started working with him in February, and we were at the beginning stages of our planning conversation.

He hadn't yet retired, and he was really worried about his overall financial situation. Despite having amassed a great deal of wealth, he just hadn't started the planning process yet. So obviously we started that process. And when discussing his expenses, he was extraordinarily reluctant to talk about health care.

And based on this conversation, I'm sure you all know I pushed back a little bit on that because it's so important to have the discussion. And I remember him verbatim telling me he wasn't worried about it.

So I came to learn from his wife in the conversation when we were chatting on the phone after he passed away that he had been diagnosed with a terminal autoimmune disease in February and asked his wife not to share it with anybody. So I can completely understand that she respected his wishes, but now she is in this massive panic mode about how to handle the, A, his passing, but also the costs that incurred through the short illness, et cetera.

So I tell you this story because, fortunately for them, their finances were in order enough that she can afford to handle the situation financially. But she has spent so much unnecessary time worrying about it when she should be focusing on her family and getting through this extraordinarily devastating time.

So had we had this conversation earlier, likely we could have just ensured that things were in place. And again, I know it's a hard conversation to have. But we would have talked about health care proxies. We would have talked about having a financial power of attorney so she could access his funds when he became incapacitated. We would have had that will, trust document conversation.

And again, all of this is not to make people go through painful conversations. It's just here so that we can avoid unnecessary financial stress when things get really tough.

Benjamin Isgur: Well, I think, Jennifer, that's definitely a cautionary tale. And the question I would ask is, how do families avoid this? How have you helped clients avoid these type of situations?

Jennifer Sellwood: Great question. And this is a more common theme in terms of how I work with clients. One example of this is a beloved long-term client of mine retired. And shortly after she retired, she was diagnosed with ALS. Her and her husband had been my clients for years, so we worked together to ensure their financial plan was in good order.

All of their estate planning documents were in place. We had really open communication around health, despite both of them being very healthy. We invited their children in to be a part of this conversation because it was their wishes that their family would be very involved should something happen to them.

So when she got this diagnosis, I remember they came into my office to tell me. And of course, as you can imagine, there was a lot of tears. But I assured them that they didn't have to worry about anything in terms of their finances. We had already done the work.

So my job was just to encourage them to enjoy every minute together and just not think about money for even one of those minutes because they were in a good spot. And they did just that. They enjoyed the next two years doing what they loved doing. And her husband called to let me know she had passed away, and he thanked me. He just said, Jen, as hard as it was to have those

conversations early on, I'm so grateful that we did because when she was ill, we never, ever had to worry about the financial part of our plan.

So I think that highlights just the importance of those conversations and how it can dramatically impact just the experience of going through something that's obviously very devastating.

Benjamin Isgur: Well, let's talk about that and get into what it may mean for a family. And I thought we could walk through a very common scenario that family members face, and that goes back to our long-term care issue. Jennifer, can you walk us through a scenario of what family conversations may look like and how that may be different between family members?

Jennifer Sellwood: Absolutely. So without a doubt, these differ from client to client, person to person, because we all have our different personality traits, et cetera. But the most important comment that I can reiterate again, that these have to happen, and the earlier they happen, the better.

And when we start this conversation, I really encourage clients to think about, what's most important to them personally in this space? And then encourage them to have those candid conversations with loved ones that they anticipate including.

So some of these things to consider would be, where do you want to receive your care should you need it? Do you want to stay at home? Do you want to be in a facility? What does that look like?

In addition, who do you want to be involved in your care? And you'd be surprised when you ask this question because the assumption is it's always a family member or children or something like that, so people are very specific if they don't want that to be the case. And it's really important that we know who you want for your care.

While my job is obviously to help plan for the cost of care, but it's also so important to focus on each individual client and what their specific goals, wishes, wants, desires that they have in this space. So again, I don't want to reiterate this point too much more, but the conversation can never happen to early, everyone. And it is a priority when we are building financial plans.

Because once we determine the where, how, who is going to participate in our long-term care, then we can pivot and introduce a long-term care specialist, and they can talk through the different options. So the beauty of what we have at Fidelity is we can uncover this piece in my office and then bring in the experts to actually talk about things in detail.

Jason Webb: So I actually do want to reiterate with Jennifer going through that a few times because this is such a critical conversation. The family conversation, especially as it relates to long-term care—we have to understand that long-term care often impacts more than just the person needing care.

Again, statistically speaking, we know that 40% of caregivers are the adult child of the care recipient. We know 39% of caregivers have provided some type of financial assistance to their loved ones who need care. And almost half of the caregivers reported feeling high levels of stress while providing care.

These numbers truly highlight the importance of this family conversation, which takes me back to Jennifer's comments just a moment ago. And it's a question I get very often from clients, it's like, what does this conversation sound like? And I just want to build on that for a second.

I really think it boils down to three questions—who, where, and how? Who will provide your long-term care if needed? Is it someone that you know? And are they aware of your wishes for them to be your care provider? Or are you going to leverage a professional care provider in this space?

Where do you want to receive your care? Is it at home, an assisted living facility, or nursing home? Depending on that answer, it could ultimately have a large impact on the associated cost. And then the last one is how, how would you pay for your care?

These three questions are questions that we engage our clients on daily, especially around long-term care. Because by answering these three questions with your family, you start down the path of creating a plan to help address the impact of a long-term care event.

Benjamin Isgur: Well, those are great points, Jason. Actually, it's amazing that we're already getting close to the end of our time here. But we did have a lot of questions that came up on a different topic I want to bring up, which is people hoping to retire early. And that could really be before the age they would qualify for Medicare.

When I mention Medicare, that means we got to bring Harold in. Harold, how can early retirees bridge that health care coverage gap?

Harold Stankard: Well, there are a number of options, and there are three that are among the more common options for health care coverage before someone turns 65. And they include your spouse's employer health plan if your spouse is still working—[CLEARS THROAT] excuse me—a plan through the Affordable Care Act marketplace, or potentially staying on COBRA coverage after you leave your job.

There's no single right answer to this. So it is, once again, wise to explore all the options available to you before deciding, to make sure you choose the option that best meets your health care needs and your budget. It's also important to remember that unless you have confirmed that you're enrolled in coverage that is deemed to be quote, unquote, "credible coverage" by the government, you may want to consider making the move to Medicare as soon as you're eligible at age 65.

If you stay on coverage that is not Medicare, like an Affordable Care Act plan, a Cobra plan, or a group health plan from an employer, that is for some reason not deemed credible coverage, you could end up with either a gap in coverage or incur penalties on your Medicare premiums. So yet again, another area to be sure you've researched, reviewed, and explored before making a final decision.

Benjamin Isgur: Well, great points there. I'm going to call this our miscellaneous category because these are just other ideas to help people save or pay for out-of-pocket health care costs both for potential retirees but even younger people thinking ahead. Jason, you want to give us just a couple highlights?

Jason Webb: Yeah, I'll emphasize again—I think we've said it a number of times—but planning ahead first and foremost. But what I would say is, while there's no replacement for long-term care coverage, we can look at ways, other ways, to help clients save more tax-efficiently, ultimately trying to maximize the growth potential for future needs. Additionally, we can evaluate strategies to generate income later in retirement through things like income annuities or qualified longevity annuity contracts.

Harold Stankard: And I'll jump in and add—I know we spoke about HSAs earlier. And they truly are a terrific health care savings vehicle. And HSA funds can be used to pay for out-of-pocket costs and even some eligible Medicare premiums—typically, your Medicare Part B, Part D, and Medicare Advantage plan premiums, deductibles, co-pays, and co-insurance. But typically HSA funds are not eligible for Medicare Supplement premiums.

But bottom line is there are so many great options for maximizing your HSA funds in retirement. So plan early. It'll help you later.

Jennifer Sellwood: And I would just piggyback on that, Harold, too, is just asset location. And when I say asset location, I mean having money that you haven't yet paid taxes on. So for example, your workplace plans, 401(k)s, 403(b)s—I know that's a very common way to save for retirement. But those monies come out, and they're taxable to you at the time of distribution.

So looking at other tax-advantageous place to save money, again, for those additional costs, whether it be Roth IRAs, tax-deferred annuities, brokerage accounts. Whatever that looks like, there's just a lot of different options. And we want to make sure that we're handling each one of those buckets so that we've got flexibility when we start taking distributions.

Benjamin Isgur: Well, I'll just jump in. I just want to mention one thing before we get to our final wrap-up, and that is, people should also be thinking about the nonfinancial retirement issues. Our survey found that about 18% of retirees reported a mental health condition. So it's important not just to think about the financial aspects but also issues of loneliness and purpose and things like that in retirement as well.

So with that, let's go to our final wrap-up. And I would just ask each of our panelists to provide any closing comments. Let's go ahead, and maybe we'll get started with you, Jason.

Jason Webb: Yeah. So I'll just make one point here, and that is that Fidelity views health care expenses as one of the five key risks to retirement income security. It is extremely important to understand the impact that health care costs will have in a retirement plan and account for the fact that they tend to inflate at a higher percentage than regular expenses.

Harold Stankard: Yeah. And I'll just tell people, Medicare can seem overwhelming at first. And most people have some level of confusion and questions. So if you do, you're not alone. Just remember that you don't have to figure out Medicare all on your own. There's great information on Medicare.gov. Services like Fidelity Medicare Services and others can help you select the right coverage for your needs.

And speaking of Fidelity Medicare Services, which I work in and have mentioned a few times, it is worth me noting that, right now, we currently are only serving individuals across 28 states and the District of Columbia, but we plan to expand and be nationwide by the summer of 2024. So if you'd like to talk to us, you can view the list of states we serve on our website, Medicare.Fidelity.com.

Jennifer Sellwood: Thanks, Harold. As an advisor here at Fidelity, I'm very excited for that service to be nationwide. It's a huge win for us.

But I would just add, like I've said so many times before, that planning and family conversations can never start too early, and they're imperative to have. Financial plans, as we know, they're fluid and everchanging. So the earlier we can have these conversations, just the more prepared we can be as we move through our financial life.

Benjamin Isgur: Well, Jason and Jennifer, Harold, thank you so much for sharing your insights on the retirement health care landscape. We really want to make one of life's biggest transitions more of a soft landing for our listeners.

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A big thank you to all of our panelists, again. Thank you to our audience for joining us, and we look forward to speaking with you again soon.

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