



T.RowePrice

Planning for Retirement Health Care Costs

PresenterName Bolded CompanyName Not Bolded

Conference or Meeting Name

Date

Agenda

**What people
are hearing**

**What's really
going on**

**What to do
about it**



What people are hearing



Retiree health care costs are enormous!

\$413,000
in retirement

Source: Spiegel, Jake, and Paul Fronstin, "Projected Savings Medicare Beneficiaries Need for Health Expenses Increased Again in 2023 — Some Couples Could Need as Much as \$413,000 in Savings," EBRI Issue Brief no. 599 (Employee Benefit Research Institute), January 18, 2024.

What people fear

63%

Out-of-pocket health care expenses are a top spending concern for retirees

55%

Health insurance premiums are a top spending concern for retirees

Source: T. Rowe Price Retirement Savings and Spending Study, 2022.

The problem with these numbers



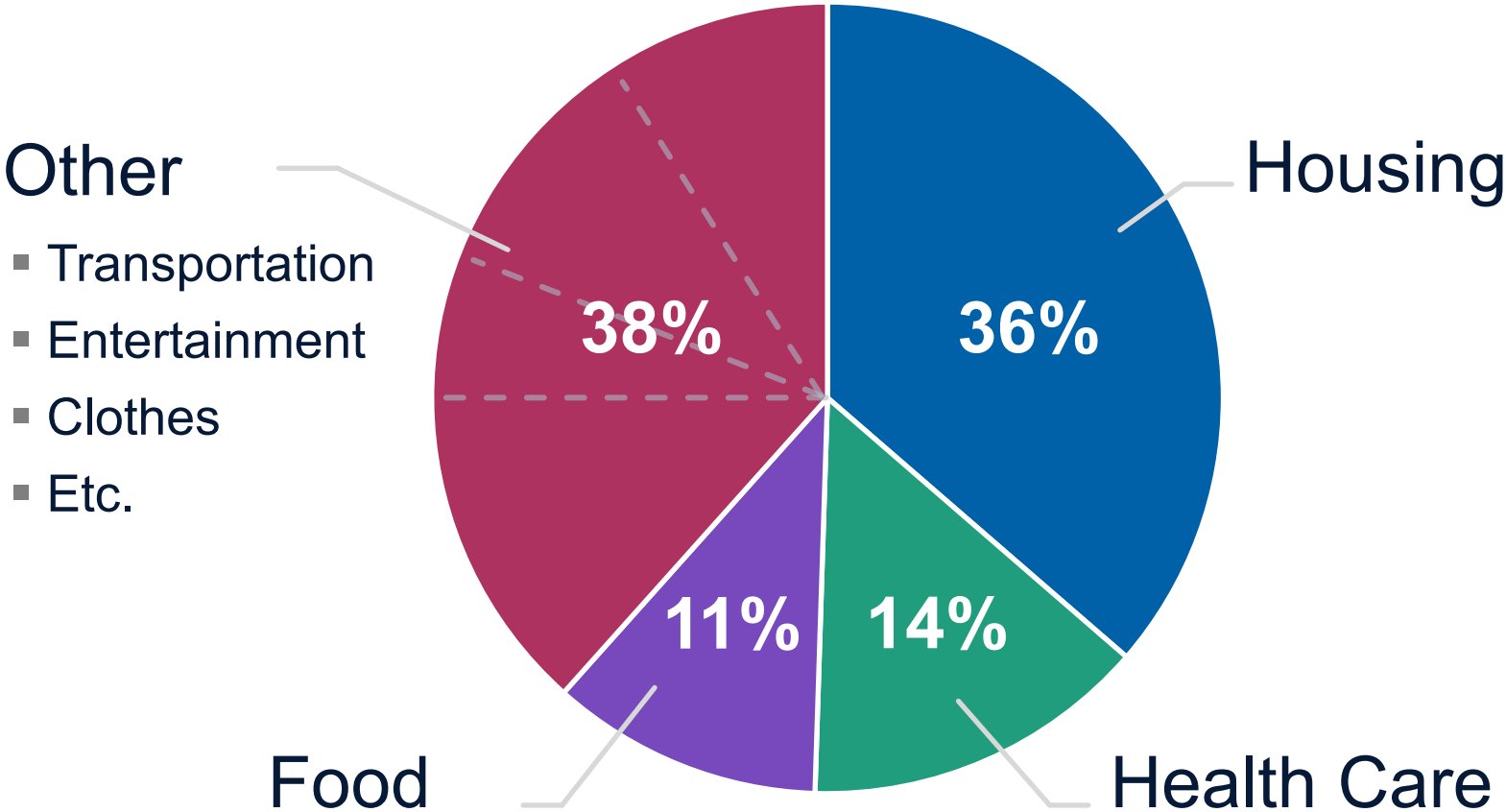
Misleading

Skews perception



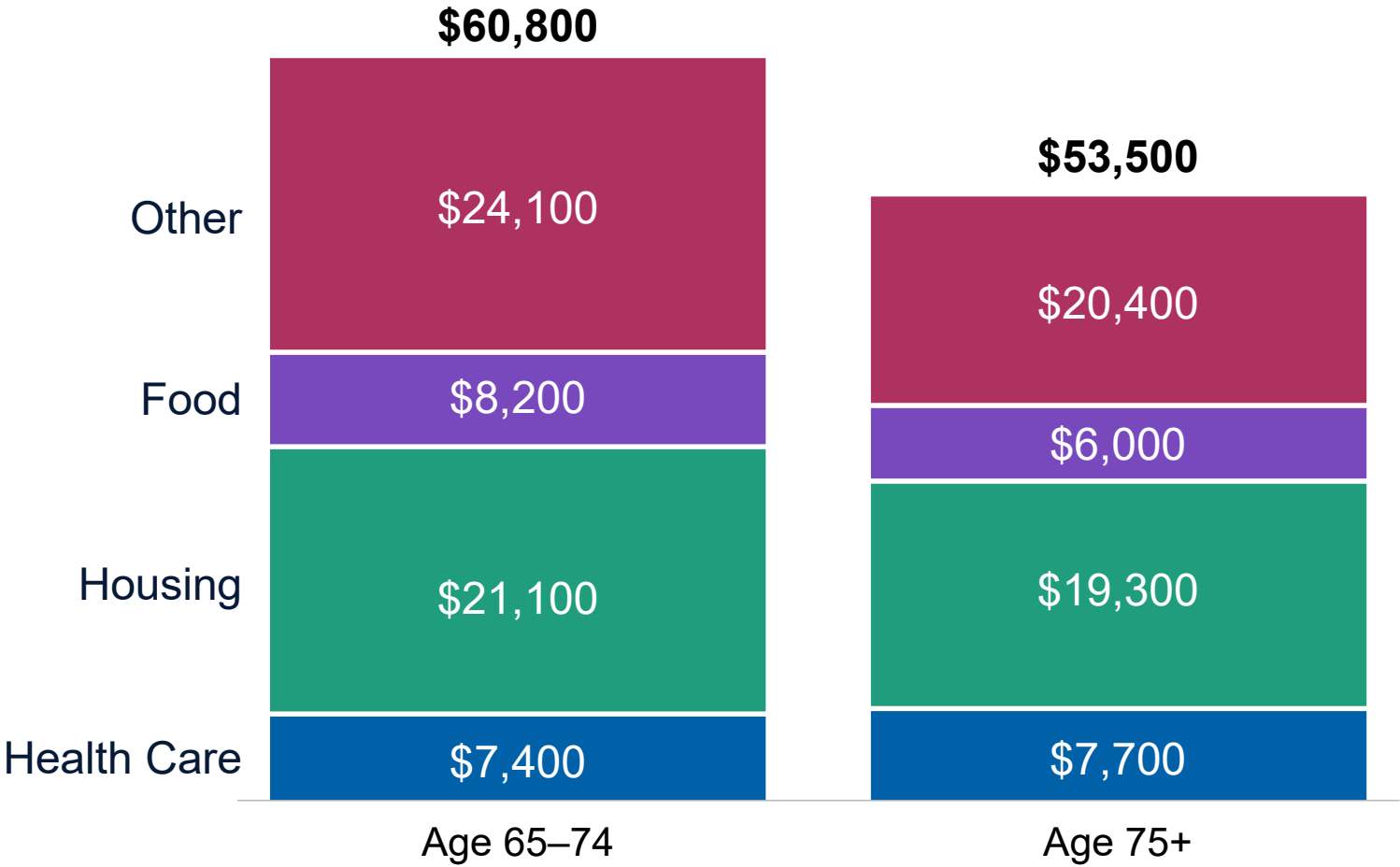
What's really going on

Average annual spending in retirement



Source: U.S. Bureau of Labor Statistics, Table 1300, Consumer Expenditures Surveys, 2022; expenses for people aged 75+.

Average annual spending decreases as people age



Source: U.S. Bureau of Labor Statistics, Table 1300, Consumer Expenditures Surveys, 2022.

What Original Medicare pays for



Part A In-patient hospital care
Skilled nursing care
Hospice care



Part B Services to diagnose or
treat medical condition
Preventive services



Part D Prescription drugs



Part C (Medicare Advantage)
Provides another way to
get your Part A and B
coverage; usually includes
Part D

What you pay for



Premiums



Deductibles



Co-pays

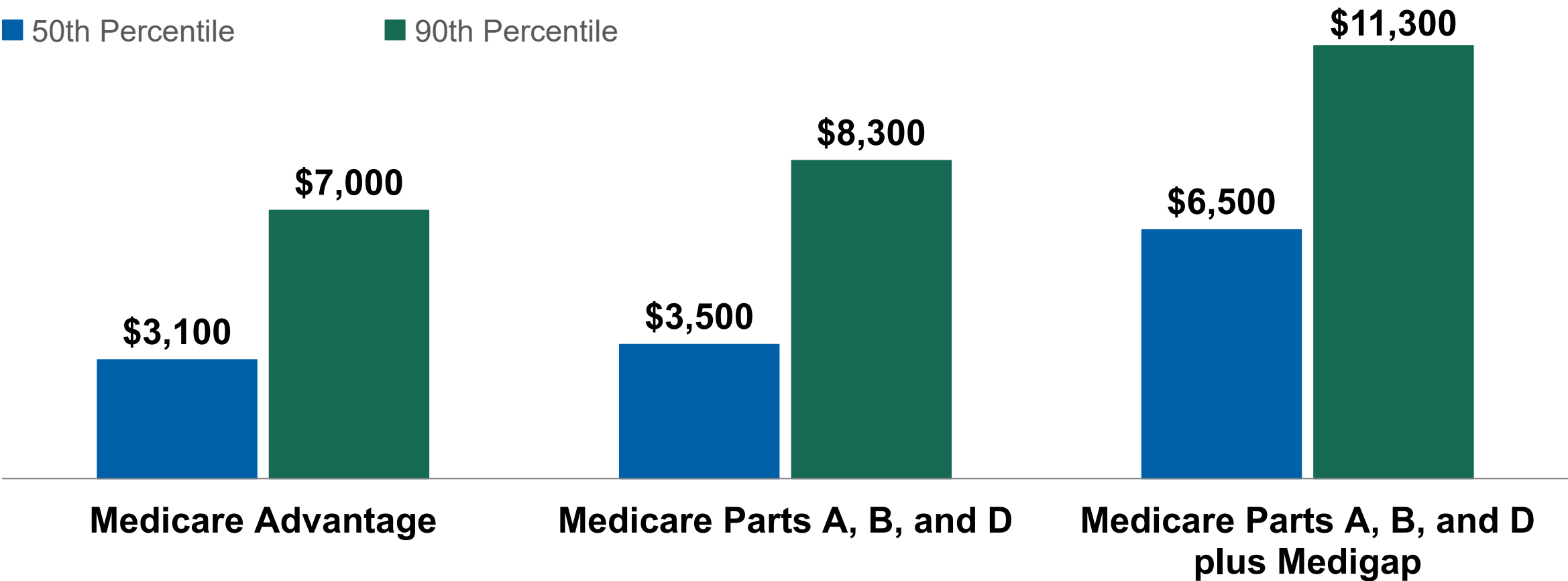


Dental, eye exams for glasses, hearing aids



Long-term (custodial) care

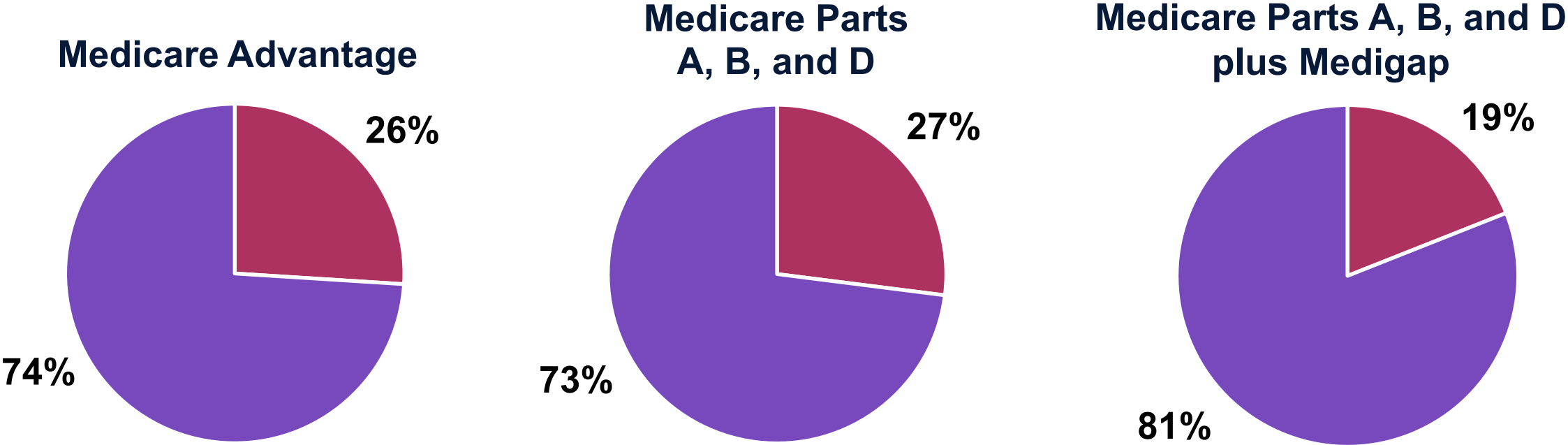
Total annual health care spending



Source: T. Rowe Price estimates based on 2024 Medicare premiums and data from the Health and Retirement Study (2020). All costs are rounded to the nearest hundred.

Premiums comprise the majority of annual health care costs

■ Premium costs (Fixed) ■ Out-of-pocket costs (Variable)



Source: T. Rowe Price estimates based on 2024 Medicare premiums and data from the Health and Retirement Study (2020). All costs are rounded to the nearest hundred.

2024 IRMAA brackets

Individual MAGI	Couples MAGI	Part B	Part D
<\$103K	<\$206K	\$174.70	Premium (varies)
Above \$103K up to \$129K	Above \$206K up to \$258K	\$244.60 (40%)	Premium + \$12.90
Above \$129K up to \$161K	Above \$258K up to \$322K	\$349.40 (100%)	Premium + \$33.30
Above \$161K up to \$193K	Above \$322K up to \$386K	\$454.20 (160%)	Premium + \$53.80
Above \$193K up to \$500K	Above \$386K up to \$750K	\$559.00 (220%)	Premium + \$74.20
>\$500K	>\$750K	\$594.00 (240%)	Premium + \$81.00

Source: Medicare.gov

Income is broadly defined by Medicare

Considered income

- Social Security benefits
- Employee compensation, wages
- Pension income
- Rental income
- Capital gains
- Dividends
- Traditional retirement plan and IRA distributions
- Qualified annuities

Not considered income

- Health Savings Accounts (HSAs)
- Home equity
- Roth accounts (employer and individual)
- Certain life insurance policies
- Certain annuities

Disparity between Medicare premiums and Social Security

Medicare Part B Premiums:

2024 rate of inflation

5.9%

Historical average rate of inflation

7.5%

Social Security:

2024 COLA

3.2%

Projected COLA (2025)

2.6%

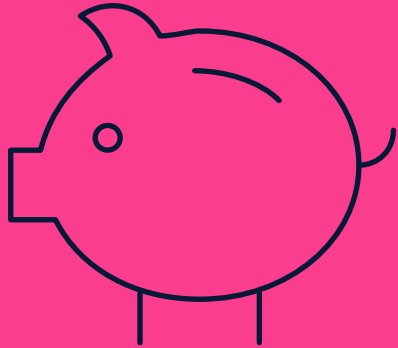
Source: Centers for Medicare & Medicaid Services, 2023 Medicare Board of Trustees Report, and Social Security Administration



What to do about it

Assess potential solutions

Accounts



Insurance



Employer Benefits



Accounts

**Pretax
Accounts**

**Roth
Accounts**

**Health
Savings
Accounts
(HSAs)**

**Variable
Annuities**

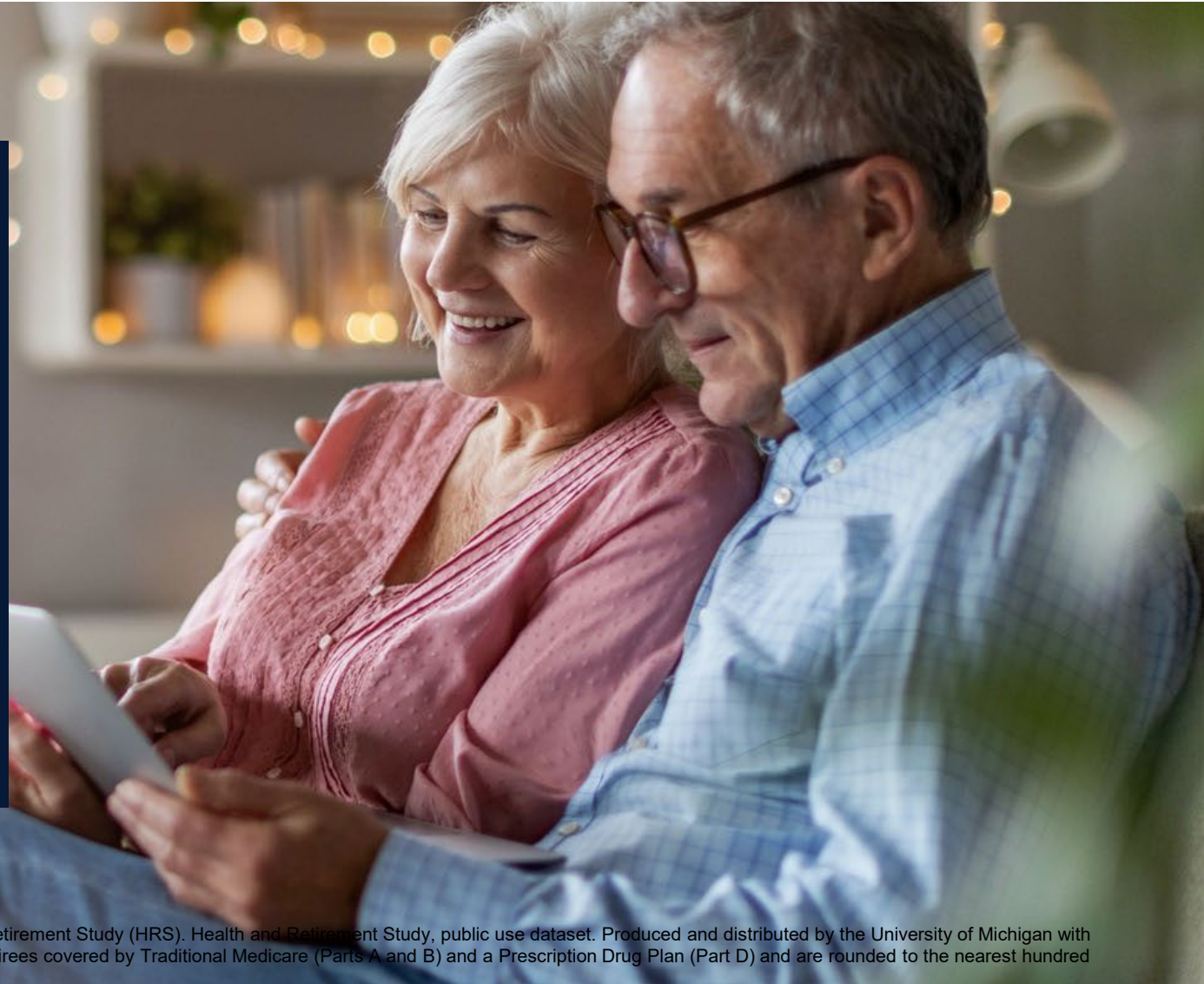


Insurance

- **Medigap**

- 81% fixed / 19% variable
- Total annual health care costs:
 - 50th percentile (median): \$6,500
 - 90th percentile: \$11,300

- **Long-term care**



Source: T. Rowe Price estimates based on projected 2024 Medicare premiums and data from the Health and Retirement Study (HRS). Health and Retirement Study, public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI. Costs are for retirees covered by Traditional Medicare (Parts A and B) and a Prescription Drug Plan (Part D) and are rounded to the nearest hundred.

Employer Benefits



- **Accounts**
- **Investments**
- **Withdrawal options**

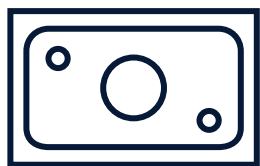


A closer look at Variable Annuities

For Investment Professional Use Only. Not For Further Distribution.

A closer look at VAs

Consider an annuity to help pay for health care costs



**Initial investment in
a variable annuity**

**Investment grows
tax-deferred
until withdrawal**

**A variable annuity can
provide regular, dependable
income in retirement**

(Annuities are available with certain
riders that can provide lifetime income)

Variable annuities are long-term investment vehicles designed for retirement purposes. They contain underlying investment portfolios that are subject to investment risk, including possible loss of principal. Like most investments, variable annuities include certain fees and expenses, such as administrative fees, sales charges, and mortality risk expense charges. Withdrawing taxable amounts are subject to ordinary income tax and if made before age 59½, it may be subject to a 10% IRS penalty. Withdrawals may reduce the benefits and contract value and may be subject to withdrawal charges. Annuity benefits and features vary, so you should carefully consider if the product is right for you. Some benefits may incur additional costs. Optional riders are subject to additional fees and withdrawal charges may also apply. Any guarantee associated with an annuity is subject to the claims-paying ability of the issuing life insurance company.

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A closer look at VAs

Consider a Roth annuity to help pay for health care costs



Lifetime income



Tax-free



**Roth income is not included
in IRMAA calculation**

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Summary

Health care costs are best viewed as an annual expense

Most are fixed costs making them easier to plan for

Consider available options to help plan for costs

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Thank You

