Insights Live℠
Strategies for health care in retirement

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TRANSCRIPT

SPEAKERS:

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Steve Betts: Hello, and welcome to the latest Fidelity *Insights Live* webinar. My name is Steve Betts, head of Fidelity Health, and today we're going to be talking about the always-important topic of strategies for health care costs in retirement. We truly want to thank you for taking some time out of your day to join us. Our panelists are ready to begin today's discussion.

But before we do, I would like to mention that Fidelity does not give tax or legal advice. And nothing we discuss today should be interpreted as tax or legal advice. The information we are providing is going to be general in nature, and it may not apply to your situation. If you have tax or legal questions about your specific situation, we encourage you to talk to your tax professional or attorney. And with that out of the way, I want to thank you again for tuning in and submitting questions during registration. They were incredibly valuable as they helped shape our discussion for today.

Based upon your input, our panelists are going to discuss everything from health savings accounts, long-term-care strategies, and Medicare coverage. This is an important topic and we do have a lot to cover, so let's jump right in. And first, I'd like for all our panelists to introduce themselves and talk a bit about their background and the perspective they will bring to the discussion. So, Jackie, maybe you can kick us off.

Jackie Calandriello: Steve, thank you so much for having me. As a wealth planner, I have the pleasure of working directly with Fidelity clients and their families, and we will cocreate a financial plan that's really focused on achieving their dreams and mitigating risk, with their ultimate goal of obtaining financial peace of mind. And health care and overall medical costs are a big part of retirement planning, so we'll often work with other members of the team who will help my clients and their families prepare for all the ups and downs that life may bring, including addressing health care costs and unexpected events.

STEVE: Thanks, Jackie. Stefne?

Stefne Lynch: Steve, it's a pleasure to be here today. Although I'm relatively new to Fidelity, during my 20-plus-year financial services career, I focused on helping customers achieve their retirement goals and protect their financial plans with insurance solutions, such as planning for long-term care in retirement.

STEVE: Great. And Ben.

Benjamin Isgur: Well, hi, Steve. It's great to be with you today. My role in thought leadership is to provide clarity on how health benefits and the health system works together. So to do this, I conduct research on macroeconomic trends, the consumer experience, health systems and providers, and health benefits themselves.

STEVE: Well, I'm super excited to have you on the panel. You bring such great, diverse perspectives. Jackie, I'm going to start with you. In your role as a wealth planner, you talk to clients every day in your practice. What are some of the top concerns your clients raise with you about their health care in retirement?

JACKIE: So, Steve, this is a great question. And although financial planning is unique to the individual, in working with my clients, I find there are some common health care concerns. And the first is unpredictability. And when I think about unpredictability, of course, there's a lot of uncertainty in life in general. But as we focus on health care, we unfortunately don't have a crystal ball to know how our health might change in the future, when we may need more advanced care. And if we do need advanced care, how long will this last, as well as who's going to provide this care?

And then the second concern is burdening one's family. So irrespective of age or wealth, the majority of my clients have stated that they do not want to burden their loved ones with having to care for them. And then, as we think about family, there's also that consideration as to who's going to be able to step in if we're incapacitated.

And then the third concern is Medicare. Medicare can be complex, and that's where it's so important to find the right coverage based on your unique circumstances. And then finally, the biggest concern is that overarching question of cost. What are the expected costs for medical expenses in retirement, and will we be able to cover any unexpected expenses without derailing our plan and negatively impacting our family's financial security?

STEVE: You talked a lot of about a lot of uncertainty and complexity there, but these are all areas we're going to touch on today. So I'm optimistic that we can provide some helpful insights for our viewers. Let's start with your perspective on when people should start putting a plan in place to cover these later-in-life health care costs.

JACKIE: I would say the sooner the better. From my experience, the best time to plan for any unexpected health care costs is going to be long before you need it. And the unfortunate fact is that most of us are not going to get healthier as we age, and if we wait and do experience any major health events, we may be limiting our options. As my clients and I develop a financial plan, we'll discuss their experiences and preferences in relation to health care as they age.

Many of my clients will tell me they want to stay in their home as long as possible, and I have others who are evaluating nursing home or continuing care retirement communities, and they're actually proactively visiting these centers to determine which might be the best option for them if needed in the future. And as we talk through this, many of my clients and I have personal experience with loved ones needing advanced care, and this can really help us shape our own care plan in terms of knowing what we may like or dislike, as well as understanding what we should have in place.

And in thinking about my own experience, my grandmother unfortunately had Alzheimer's for 10 years, and I have many clients who have loved ones who are dealing with cognitive impairments such as Alzheimer's and dementia. And seeing the progression of the disease, this has really instilled that importance of ensuring financial affairs are in order and the health care wishes are known by family.

And with that in mind, one of my primary goals when I work with my clients is I want to help them maintain control of the decision-making process while they are physically and mentally able to do so. And this involves discussing the role of the fiduciaries who may need to step in to assist, such as a health care proxy and financial power of attorney. And then, as I had mentioned prior, cost is a primary concern, and this is why I will help my clients evaluate their ability to cover unexpected costs and the different ways to address health care needs.

We will cocreate a financial plan where we will account for these expected costs, such as insurance premiums, as well as the potential costs, such as moving to be near family, the impact of a major health event or long-term-care event, and then evaluate the most efficient strategies to meet the needs of themselves and their families while mitigating risk and addressing any gaps.

STEVE: Thanks, Jackie. Great points there. Certainly ones that resonate with my personal situation also. So maybe, Ben, turning to you. Jackie talked about her clients' concerns relating to the cost of health care and retirement. Your group has done a lot of research into these costs, so maybe you can talk about what people can expect.

BENJAMIN: Well, Steve, actually, I think Jackie got it right. Health care costs are often more than most people anticipate. So let me run through some of those numbers for you. So according to Fidelity Research, on average, an individual who retires at 65 can expect to pay more than $157,000 to cover health care costs over their lifetime. But guess what? Here's the challenge. Our research also found that most people's estimates of those same costs is about $75,000. So there's a pretty big gap between $157,000 and $75,000.

So what do these retiree health costs include? Well, you can think about such things as Medicare premiums, your cost sharing for prescription drugs, and even health costs that Medicare does not typically cover, such as dental care. Now, one item that the estimate that we have does not include is long-term-care costs, and I know you mentioned that and we'll be talking about that later.

So really, I think the question becomes, why is there such a big gap between perception and reality of these costs, and what is so unique about health costs? And I would just probably go back to what Jackie mentioned before as well, the idea of the crystal ball. It's really hard to predict these costs. One reason, health care typically rises faster than your average inflation year to year. So in some years, in fact, the health inflation rate has outpaced the Consumer Price Index by almost a two-to-one margin.

The other issue about health spending is how personal and unpredictable it can be. So unlike other expenses that people may be used to, they have—they may be fixed or they have a slight range. Health care costs can actually vary quite a bit, and that's going to be from person to person, year to year, because it's based on people's medical conditions. Also, health care costs can vary even by geography in terms of where you're getting the care.

STEVE: Thanks. Thanks, Ben. Stefne, let me turn to you. So Ben just mentioned there that his estimate doesn't include the potential cost of long-term care. Maybe you can talk to us a little bit about what exactly is long-term care and how likely is it that someone is going to need it.

STEFNE: Sure. It's a great question, and I think Ben and Jackie did a great job in teeing up the conversation. When people hear long-term care, they immediately think of a nursing home or end-of-life care, when really the discussion is much broader than that. Long-term care actually encompasses a variety of services that help with someone's personal care, either over a short or long period of time. The most common types of personal care are the activities of daily living.

And so what does that include? It includes bathing, dressing, eating, walking or moving, toileting, and cognitive impairment. And although there's no way to predict who may need long-term care, when or for how long, there's a 70% chance Americans age 65 will need some form of long-term care in their lifetime, and one in five people who will need long-term care will need it for longer than five years. So that's a lot to plan for in a retirement plan.

STEVE: Yeah, and those are some pretty high probabilities, and five years of long-term care sounds expensive. So what do we know about the long-term-care costs?

STEFNE: It's very interesting. So one important point to make, long-term-care services are not covered by Medicare. So this is above and beyond the Medicare benefit. So given this, long-term care can be a major expense and a cause of stress when you're going through planning, either with an individual or with their family. The cost for long-term care is based on many factors, such as the type of care needed and the location, as Ben had mentioned. The cost can start lower for services like in-home care and then may rise with more intensive care, such as moving to an assisted living facility if that's needed.

The East and West Coasts are more expensive in terms of care, and the Midwest prices tend to be lower for care. So it's important, geographically, to take those considerations into the planning process. According to the 2023 Genworth Cost of Care study, costs have continued to increase over the last 20 years. And a quick example, the average cost for an assisted living facility has increased 123% since 2004. Even the average cost for a home health aide has risen 79%, which is why planning for these potential costs is so important.

STEVE: Thank you, Stefne. Jackie, in your earlier comments, you mentioned that this was one of the topics that you talk about with your clients. So anything to add from your perspective?

JACKIE: Yeah. So I think Stefne and Ben both brought up a great point regarding location, and I'm currently sitting in my office in Manhattan. And when I look at the average cost of care for a private room in a nursing home for my clients, it's about $167,000 per year. And then if I think about location, I have a lot of clients who like to split their time among multiple states, one of which is Florida.

Now, when we look at costs, that can certainly bode well, as the average cost in Florida is going to be lower, at about $141,000 per year for that private room in a nursing home. But again, it's going to depend on location. Ask my clients who live in Miami—they're actually going to be paying more than Manhattan by about $4,700 a year. And then, as if those figures weren't enough already, I actually have some clients who have lived in Alaska, and the average cost is a staggering $427,000 per year, which is about two and a half times where I'm sitting in Manhattan.

STEVE: Wow. That is a huge disparity by geography. Thanks for those perspectives. So, Jackie, staying with you, in your earlier comments, you mentioned maintaining control of the decision-making process while being physically and mentally able to do so. What documents do you need to have in place to ensure your family understands and executes your wishes?

JACKIE: So, Steve, there's really going to be three documents that you should have in place in relation to health care, and that first is a health care proxy. And sometimes this is going to be referred to as a medical power of attorney. And your health care proxy is going to be the person that you're authorizing to make important medical decisions when you're no longer able to make them for yourself. And when you think about your health care proxy, it's essential for this individual to understand your wishes and be both willing and able to make potentially difficult decisions.

And then the second document is going to be the financial power of attorney. Now, this is a legal document that's going to grant another person the ability to make financial decisions on your behalf. So this individual may be taxed with handling your financial affairs. This could include paying the bills, maybe managing or directing investment decisions, managing your insurance, potentially liquidating investments to cover expenses, including medical costs and such.

And then as we think about our financial power of attorney, for those of you who are married, it's incredibly important to remember that spouses do not automatically have access to each other's assets unless the assets are jointly owned or there's a financial power of attorney in place. Now, the last document is going to be your living will, and your living will will guide your family and your health care proxy on your end-of-life care and wishes. This could include life-prolonging treatments, pain relief, and organ donation. Some clients will also include their religious preferences and funeral arrangements, and I've even had some indicate their wishes in respect to receiving care in their home versus in a nursing home.

STEVE: Thanks, Jackie. Now, you know, the reality is that many of us will lean on family members, not just to be a health care proxy or a power of attorney, but also to provide care. And Stefne, maybe turning to you. Can you share your perspectives on how we should communicate with loved ones about that possibility?

STEFNE: Sure. It's a very important topic, and one that isn't discussed nearly enough. And so unfortunately, this is one of the misconceptions about long-term care, that many people believe, that their family will take care of them at home. And it may not be the best option, as it will depend on the type of services a person needs and their support network. So this is why it's important to have the family conversation early in the planning process.

A good starting point for the conversation would be asking yourself and others, if something were to happen today or 10 years or 20 years from now, who do you want in charge of your care? Would that be a family member, a spouse, a partner, or might it involve hiring a home health aide or nurse to take on that role? And once you've settled on the person or people, it's important to communicate your wishes to them and make sure that they understand exactly what that job entails.

Family members who act as caregivers may spend 24 hours per week performing that job on average, and additionally, there's a personal expense involved of about $7,000 or more annually. Will they be able to handle duties such as feeding you, bathing and dressing you, and potentially changing your diapers?

Another consideration is if one spouse is physically capable, they may find it difficult to provide the required level of care. Assistance with activities of daily living does not require clinical skills, per se, but it is a major undertaking. The healthy spouse needs to make an emotional commitment and have the mental fortitude required to care for that disabled spouse. And for single individuals, thinking about long-term care and how you get access to and pay for those services is crucial, especially when there is not a spouse or partner in the household to help with that care.

STEVE: Thanks, Stefne. Now, I teed that question up with leaning on family members, but you quite rightly raised there that there are other considerations for single individuals. So maybe, Jackie, turning to you, what additional guidance would you offer for single individuals?

JACKIE: So, Steve, I found that planning can be both simpler and more difficult for single individuals. So on one hand, it's simpler because you can focus on your own goals, priorities, and lifestyles, and there's no need to negotiate on the terms. But on the other hand, all expenses, including health care costs, are going to fall on your own shoulders.

And that may mean that you have to save a larger percentage of your income relative to a couple's when you factor in things like tax laws, Social Security payments, the retirement contribution limits, and such. So as we think about health care, and more specifically a long-term-care health event, what we find is that care is often provided by spouses, especially initially. So for those of you who are single, that's where it's incredibly important to evaluate how any unexpected health events are going to impact you and then determine the best way to mitigate the risks to ensure you're maintaining control of the decision-making process.

And that's going to involve evaluating the benefits of adding long-term-care insurance as part of your overall health care and financial plan. And I find that this is especially important, as there was a nonprofit, the Employee Benefit Research Institute, that examined the discrepancy in cost and found that nursing home and home health care costs for singles has, in some cases, doubled the cost for couples. And that is likely due to that difference in having a spouse who's available to act as a caregiver.

And then lastly, one of the biggest challenges is finding a person you trust with your health and money, namely that health care proxy and power of attorney roles that I discussed earlier. And for couples, many spouses are going to default to each other, but for single individuals, that's where it's really important to have these discussions with family and friends to ensure that your needs are fully being met.

STEVE: Thank you, Jackie. Great points there. So our panelists have given us their perspectives on the potential cost of health care and retirement and many other valuable insights to consider also. Now let's switch gears and talk about strategies to help manage some of those costs in retirement. We know that many of our clients expect to get coverage through Medicare, and choosing a plan can be complicated. And maybe, Ben, I'll turn to you and ask you to walk us through the basics of what Medicare coverage looks like.

BENJAMIN: Well, I mean, that's right, Steve. It can be complicated, but let's try to break it down a little bit. So I think one place we could start is we need to start with the different parts of Medicare. We're going to even have a visual here to help me walk through it with you all. But we have original Medicare, Medicare supplements, also known as Medigap. We have Part D drug plans. We have Medicare Advantage, which is also known as Part C. So the main takeaway here is it's not a singular plan. There's actually a lot of different plans to choose from.

So let's start breaking down each of those parts. So we have original Medicare. Now, original Medicare is made up of two parts. So you've got Part A, which is the hospital insurance, right? So that's what's covering you when you're in an inpatient setting or in a hospital. And then you have Part B, which is your medical insurance. So think of that as being more associated with doctor's costs and outpatient services. But original Medicare does not cover some benefits people may be used to having.

So, for example, dental, vision, and hearing. It also does not cover prescription drugs. So those are covered in that separate plan that I mentioned, known as Part D. The other thing to remember about original Medicare, you must pay 20% of the cost of care, and there is no out of pocket maximum. Although you can buy insurance to help cover the 20% that original Medicare does not through what's called a Medicare Supplement plan or, as I mentioned, sometimes they're known as a gap plan. The other piece, Medicare Part D, which I mentioned, that's the drug coverage.

So that's the part of your plan that's going to cover your prescription drugs. It also has a cost-sharing component to it. Then you've got the Medicare Advantage, and I mentioned that before as Part C. So it's another option, and it kind of looks and feels a little bit more like an employer health plan that you may be used to because they typically have a provider network, a drug plan. They can even have dental, vision, and hearing all included into one plan.

So there's a lot of differences between these types of plans that may be important to you depending on where you live, how you want to live, where you want to live, what you're used to, the cost that you are used to paying. A lot of different decisions there. But the bottom line is it's important to review and understand these multitude of options that are available for the level of coverage that an individual prefers. Let me just hang on that word for a little bit as well. Individual. So speaking about individuals, that brings up a really important point about Medicare. So unlike employer-sponsored health insurance, where you as an employee could provide coverage for a spouse, a partner, or dependents, Medicare is only for individuals and does not cover the household.

STEVE: So Ben, you made that sound simple, but that's a lot to navigate. So maybe you could talk us through some of the decisions that need to be made when preparing to enroll in Medicare.

BENJAMIN: Well, Steve, you may be too kind by saying I made it sound simple. Let's just say I tried, for sure. But there are several decisions to consider when you prepare to enroll in Medicare. So let's start walking through some of those decisions. So the first decision is when to enroll. So enrollment in original Medicare, so that's that Part A and B, does not happen automatically when you turn 65 unless you are already receiving benefits from Social Security and a few other very specific cases.

The other thing to keep in mind when it comes to enrollment is if you fail to enroll by certain deadlines, there may be penalties involved. So really, the bottom line here is, generally, enrollment is not automatic, and you need to do it by certain deadlines. Also, you should consider any health benefits that you may be able to receive from an employer after age 65, as there are still a few organizations that do pay for retiree health care or portions of retiree health care. All right. The second decision. That's what to enroll in. So I think I would go back to that point I was making. It is not a singular program, and you've got choices to make.

Bottom line, give yourself some time for these choices, because there are many plans to choose from. I think especially if you're leaving an employer health insurance plan, typically on your employer health insurance plan, you're going to be used to having maybe two or three choices, maybe four or five at the most. When you think about Medicare, though, you're really looking at potentially 30 to 40 choices of plans between supplement plans and Medicare Advantage plans, so that can seem really daunting. And in fact, our research shows this. About 51% of Medicare consumers surveyed said it can be difficult to compare plans.

STEVE: Wow. So that is a lot of choice. So let's go a little deeper on that second decision that you've just been talking about. Can you help our audience understand more about the factors to consider when choosing a plan?

BENJAMIN: Yeah, let's delve into that a little bit deeper. And I think there's several things to consider, and I'll just give us just a quick high-level and we'll go through each one. So the things to consider when you're thinking about plans are things like plan network, where you live, cost considerations, and then even changing plans. So let's walk through those. So the plan network—so this is the doctors and hospitals that are in a network, and also you have to think about the prescription drugs that are available and the drug formulary.

OK. So let's put that aside. Where you live—so here we're thinking about, well, do you plan to travel frequently around the country or do you plan to live in more than one city or town? Both Jackie and Stefne talking about their clients have mentioned, yes, people live in different places and they may want to move to different places. Maybe you have a summer house or you want to live near grandkids part of the year. So where and how you live can certainly influence your decision between things like original Medicare and a supplement without a network and Medicare Advantage plans with a network.

The third thing to consider are the cost considerations. So really here we're talking about trade-offs. So it's the trade-off between the price of monthly Medicare premiums and cost sharing at the point of care. So some plans may have premiums as low as $0 with higher cost sharing and others may have higher premiums with lower cost sharing. So definitely some trade-offs there and some things to consider around costs. The other thing to consider is just changing plans. And what we say is it's not always easy to make a coverage change.

So, for example, in some instances, medical underwriting for a supplemental or gap plan may be required if you want to switch plans in later years. So because of things like that, it can be a good idea to weigh all these factors and enroll in the coverage that's right for your situation right from the start of your Medicare journey. Now, I don't want to leave this topic of Medicare without letting people know we've got an easy button for you. So helping people navigate these coverage options and making informed decisions about additional coverage is a big part of what the team at Fidelity Medicare Services can help you with. So think of it as the easy button as you see the link on your screen.

STEVE: Thanks, Ben. Really great overview of a complicated topic. But talking about complicated, as if that's not complicated enough, we know that even after going through the process of selecting the plan that's right for you, the cost of Medicare can vary greatly between individuals. And Jackie, maybe you can help explain that.

JACKIE: Yes. So there's the dreaded term, IRMA. And this can sometimes catch individuals off guard. For those of you who may not be familiar, IRMA is going to be that income-related monthly adjustment amount, which is a surcharge that some Medicare recipients are going to pay in addition to their normal Medicare premiums if their income is above a certain threshold. So Medicare is going to look at your modified adjusted gross income reported on your tax return, but from two years prior to determine if you pay a higher monthly premium and what that amount is going to be.

So if we're thinking about 2024, the IRMA charges are based on your tax returns from 2022, and for 2025, it'll be based on 2023. So the IRMA surcharge is going to be added to your Medicare Part B and Medicare Part D premiums. And if we look at the cost for 2024, the Part B surcharge is going to range between $69.90 up to as much as $419.30 per month, and the Part D surcharge is going to range between $12.90 up to $81 per month.

And the income levels that are going to trigger this will depend on your tax filing status. So an important consideration when I'm working with my clients is we really want to understand their income sources, including future required minimum distributions from their pretax retirement accounts to know how this is going to impact their Medicare premiums and that potential surcharge. But another important point is that there is an appeal process if you feel that you shouldn't be assessed this charge.

So I have some clients who are retiring past the age of 65, yet the IRMA charge is going to be based on their income while they were working. So if you do experience any major life events, such as retirement or divorce, unfortunate death of a spouse, these are areas where you could potentially appeal to Social Security to have the premiums reassessed.

STEVE: Great. Thanks, Ben and Jackie, for the great information about Medicare. But now let's talk about a fairly common scenario where Medicare isn't an option. For example, for those who retire before they are Medicare-eligible. And Stefne, let me turn to you and talk about how early retirees can bridge their health care coverage gap until they are Medicare-eligible.

STEFNE: Sure. Thanks, Steve. And we have a great visual that we'll put on the screen as well to walk us through. So there are four main ways to bridge the health care coverage gap before someone becomes eligible for Medicare. The first is COBRA insurance, and this stands for the Consolidated Omnibus Budget Reconciliation Act of 1985, or more commonly known as COBRA, which allows you to continue your current health care coverage for a certain amount of time. But you may be required to pay the full cost of your health coverage, plus a 2% additional charge.

Second, there's your spouse's plan. If your spouse or domestic partner is employed and has health coverage, you may be able to get covered by their employer's plan. And if your spouse or domestic partner is already retired and has retiree medical coverage, you may be able to be added to that coverage as well. So it's something to explore.

Third, we have the public marketplace, and this was established by the Affordable Care Act, and it provides plan options available to anyone who is not yet eligible for Medicare. And you can no longer be denied coverage for any reason, including a preexisting condition. And then finally, there's private insurance. People can also look to their local health insurance agent, trade, or professional association and other so-called private exchanges that offer plans from multiple carriers. These may have more plan options available to go through these outlets than the public marketplace.

STEVE: All right. Thanks, Stefne, for laying out those options. And you've all provided insights, great insights, but even in the best-case scenario, health care and retirement is a significant expense. And Ben, maybe you can talk to us about how a health savings account might help.

BENJAMIN: Well, I mean, that's right, Steve. It is a significant expense. And, you know, here's the great news about health savings accounts or HSAs. These are accounts that are actually designed for health expenses. So they are an efficient way to save for health care costs now and in the future as well. Our research found that approximately 13% of consumers say they will pay for retiree health costs using their HSAs. So there's actually a lot of opportunity for more people to understand how these accounts can be used.

So let's break that down a little bit. So the first step of an HSA is understanding if you're eligible. Now, you can only open and contribute to an HSA if you're enrolled in an HSA-eligible plan. So those are sometimes referred to as a high-deductible health plan. Secondly, there are many advantages to saving in a health savings account. Primarily they are triple tax advantage. And what that means is that your annual contributions reduce your income tax in the year you contribute to your HSA.

All money within the plan is going to grow tax-deferred. And it's tax-free when you use it for qualified medical expenses. So the question becomes, well, what's a qualified medical expense? All right, so that's going to include things like your medical care, prescription drugs. It can even include some over-the-counter drugs, dental, vision, among other things. And here's the great news about an HSA, is that after the age of 65, HSAs can even be used for nonmedical expenses and are not subject to penalty, just income tax, if needed. So very, very flexible there.

One of the reasons it's so flexible is that you own the account. And really what that means on a day-to-day basis is your HSA money stays with you, regardless if you change jobs, if you change health plans, even if you move to a different state. So even if you change health plans to a health plan that doesn't have an HSA, you can still use the money in your HSA for qualified medical expenses, although you can no longer make new contributions to your HSA. So that's even important as well.

So even if you change to a nonqualified eligible health care plan, you still have the HSA, you can still use the money from it. You just can't put it back in. HSA money, it can be used to pay for current health costs, but it can also be saved or invested for future health costs. And that's where we have that connection to retirement, because it's a triple-tax-advantaged account and HSA provides that potential for a really strong financial growth. So here's the bottom line if you have to net-net this out. If you can pay for your health care expenses out of your current cash flow, you may want to pay for those out-of-pocket costs directly and invest your HSA to help fortify your retirement.

STEVE: Great points, Ben. Thanks for highlighting a potentially important role that HSA can play in saving for health care in retirement. Now let's talk about covering the costs of long-term care. Jackie, maybe turning to you. What are the options as we think about that?

JACKIE: So there's really going to be three main options for the majority of individuals, and that's going to be governmental assistance, self-insuring, or long-term-care insurance. And if we think about governmental assistance, veterans and individuals who have low income and can afford to cover long-term-care expenses, they may be eligible for long-term-care assistance from the federal government through Medicaid and the Veterans Health Administration, or state run assistance programs.

Medicaid may cover you if you meet your state's poverty criteria, but the asset and income levels are going to be quite low. So some may be tempted to try to spend down their assets or transfer assets out of their name to qualify, but there is a five-year look back where states can examine your finances and impose penalties. And then, as Stefne mentioned earlier, it's important to not confuse Medicaid and Medicare. Medicare does not provide benefits for long-term care and only has limited benefits for short-term care.

Now, if we think about long-term-care insurance, this is when you're going to transfer risk to an insurance company. You're going to pay a premium in exchange for long-term-care insurance coverage that's going to pay a tax-free benefit if you experience a qualifying long-term-care event. So long-term-care policies can vary significantly, so that's why it's important to work with a professional who can help guide you in making the right decision to meet your needs.

And when we think about long-term-care insurance, it can really be broken down into two types, namely traditional and hybrid insurance. And traditional long-term-care policies are going to provide a benefit if there's a triggering long-term-care event, but in most cases is not going to pay anything if you never need long-term care. So this is going to be similar to your typical homeowner's and car insurance structure.

Now, traditional long-term-care insurance can provide a high degree of personalization, but also carries the risk of increasing premiums. So then there's going to be hybrid long-term-care insurance. And this is when you're combining a life insurance policy or annuity with long-term care, and that will ensure that somebody is receiving a benefit from the premiums that are being paid, either through the payments that are being received, if you need long-term care, through the cash value of the policy, or through the death benefit that will be paid to heirs.

STEVE: And you mentioned you could self-insure, and that means paying out of your savings. Maybe you can talk to us a little bit about that.

JACKIE: Yes. So when thinking about self-insuring, part of the difficulty is going back to that unpredictability I mentioned earlier, where you have that uncertainty of knowing when you might experience a long-term-care event, how long that would potentially last, what's going to be the overall cost and such. And if expenses are higher than anticipated or potentially the need extends longer than planned for, that could potentially jeopardize other intentions for the fund, such as covering family expenses and legacy planning.

And then furthermore, if we think about self-insuring, we also have to remember that there may be tax implications when we draw down on the assets, depending on the account type and holdings. If our portfolio consists primarily of pretax retirement funds such as traditional IRAs or 401(k)s, then every distribution is going to be subject to ordinary income taxes. Therefore, the overall distributions may need to be significantly more than the actual health care cost.

STEVE: Thanks, Jackie. So now let's dive a little more deeply into long-term-care insurance. Stefne, turning to you, what does the coverage process look like and at what age should the process start?

STEFNE: It's a great question, and I think Jackie did a really nice overview of long-term care and hybrid long-term-care insurance. So the hybrid life insurance with the long-term-care policy allows people to use a portion of their personal savings to create a larger pool of long-term-care benefits that they can access on a monthly basis to help pay for long-term-care expenses. But—and this is the interesting part—but if they don't use their long-term-care benefits, it will pay a life insurance death benefit to their beneficiary upon their death, which is nice.

So they can use it for long-term-care expense or they can use it for life insurance death benefit. Like other types of life insurance policies, there's an approval process that a person needs to go through to see if they qualify. And so this is typically called underwriting. If someone is considering this type of an insurance policy, there are some specific considerations that will help determine their eligibility, such as any kind of health conditions or diseases, having an upcoming surgery or procedure scheduled, the need for ongoing support, or the use of assistive devices.

And there are also questions that should be asked. Are they currently age 66 or older? Are they a tobacco user? Have they used an assisted device in the last 12 months? And have they been hospitalized in the last 12 months? This will help determine if they qualify for this type of policy and is a conversation that you can have with your financial professional.

At Fidelity, we encourage our clients to start thinking about long-term care as part of their planning much, much earlier in the process, meaning in your 40s or in your 50s versus in your 60s, when most people tend to start thinking about it. The sooner people start thinking about it, the better, and this will help provide us with more choices on how and where they receive care. The longer people wait to include long-term care in their overall plan could result in higher premiums, no guarantee of coverage, and potential for increased health risks.

STEVE: Thanks, Stefne. So we've talked a lot about the financial burden of health care in retirement. And Ben, maybe I can turn to you and ask you what other issues people should consider beyond financial issues as they prepare for retirement.

BENJAMIN: Well, Steve, I'm glad you're asking that question. I think one of the things that I'm very passionate about in terms of the nonfinancial issues that are out there is around mental wellness. And one of the things that we found in our research is that 18% of retired consumers reported having a mental health condition. So let's think about things like loneliness in retirement is not uncommon.

Some people become depressed and overwhelmed by that transition from the work world to retirement and may need to have mental health needs addressed. Even changing health plans or moving to Medicare may mean having to choose new doctors and mental health therapists, so this needs to be planned for as well. I think one way to put it is getting the basics done around preparing and saving, which we've been talking about on this webcast today, can really help reduce anxiety and make that jump into retirement more of a soft landing.

STEVE: Thanks, Ben. And Jackie, you talked about conversations you have with your clients. Do you have any additional thoughts to share?

JACKIE: Yeah. So Steve, I'd add that it's important to also think about the layout of your home. I mentioned earlier how many of my clients tell me they want to remain in their home as long as possible, and I actually have a few clients who are proactively renovating areas of their home to make it more accessible as they get older.

They're focused on ensuring their homes are properly situated to accommodate their needs as they age, such as the use of a walker or wheelchair and the ability to fit through hallways or door openings. And if they are in a wheelchair, will they be able to reach their countertops and cabinets? And does the home have many stairs, and will they physically be able to go up and down those stairs? And if mobility is an issue as we get older, will we be able to step in a bathtub? Or perhaps we should think about having a walk-in shower as being a better choice.

STEVE: Great. Thanks for those insights, Jackie, and thanks to all three of you for providing so much important information here today. We have covered a lot of ground, so I think it might be helpful if each of you can share a few key takeaways you'd like to leave our viewers with. So Jackie, let's start with you.

JACKIE: Sure. So the best health care plan is going to be the one designed by you where you're mapping your own course and maintaining control of the decision-making process while you are physically and mentally able to do so. So plan early, and most importantly, remember that you do not need to figure this out on your own. And that's why I encourage everyone to schedule time with your financial professional to put a plan in place that's in accordance with your needs and wishes, and this will encompass an effective health care plan and potentially meeting with a member of Steve, Ben, or Stefne's team.

STEVE: Thanks, Jackie. Stefne, what key takeaways would you highlight?

STEFNE: I would say long-term-care planning can often be complex and people may tend to avoid discussing it because it can be an emotional topic and it has important implications on a financial plan. A thoughtful long-term-care plan is all about balance, weighing what you can afford, the kind of care you expect, and the risks you might face. Made carefully, it's a decision that may help provide you with some peace of mind in your retirement plan.

STEVE: Great. Thanks, Stefne. And Ben, your thoughts.

BENJAMIN: Well, Steve, I started out the discussion today around some of the costs. And yes, they are more than most people think they're going to be, but they can be met with the right preparation and strategy. So I'd say here's three things to think about. One, maximize your HSA if available or put extra into savings.

I think the second thing is be proactive about preparing for the transition to Medicare, because there's going to be a lot of choices like we covered earlier. And three, it's not all about cost and choosing health plans. There's other things in retirement as well, and that can be influences on things like your mental health. So careful preparation may give you more peace of mind. It can reduce anxiety and stress and help you embark on your new adventure.

STEVE: Thanks, Ben. I want to thank you and all three of our tremendous panelists here today for such great insights on the retirement health care landscape and the planning and tools that can make one of life's biggest transitions a soft landing. And for more timely market updates and insights on other financial planning topics, please subscribe to *Insights from Fidelity Wealth Management*℠ for exclusive invitations to future wealth management webinars and access to our weekly newsletter. Thank you again for joining us today.

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