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HEALTHVIEW SERVICES:

2017 Retirement Health Care Costs Data Report©

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SECTION 1: INTRODUCTION

HealthView Services' 2017 Retirement Health Care Costs Data Report shows retiree health care expenses will rise at an average annual rate of 5.47% for the foreseeable future – almost triple the U.S. inflation rate from 2012-2016 (1.9%)[1] and more than double annual projected Social Security cost-of-living adjustments (COLAs – 2.6%). As this Report details, the compounding impact of health care inflation means that health care costs will be one of the most significant expenses in retirement.

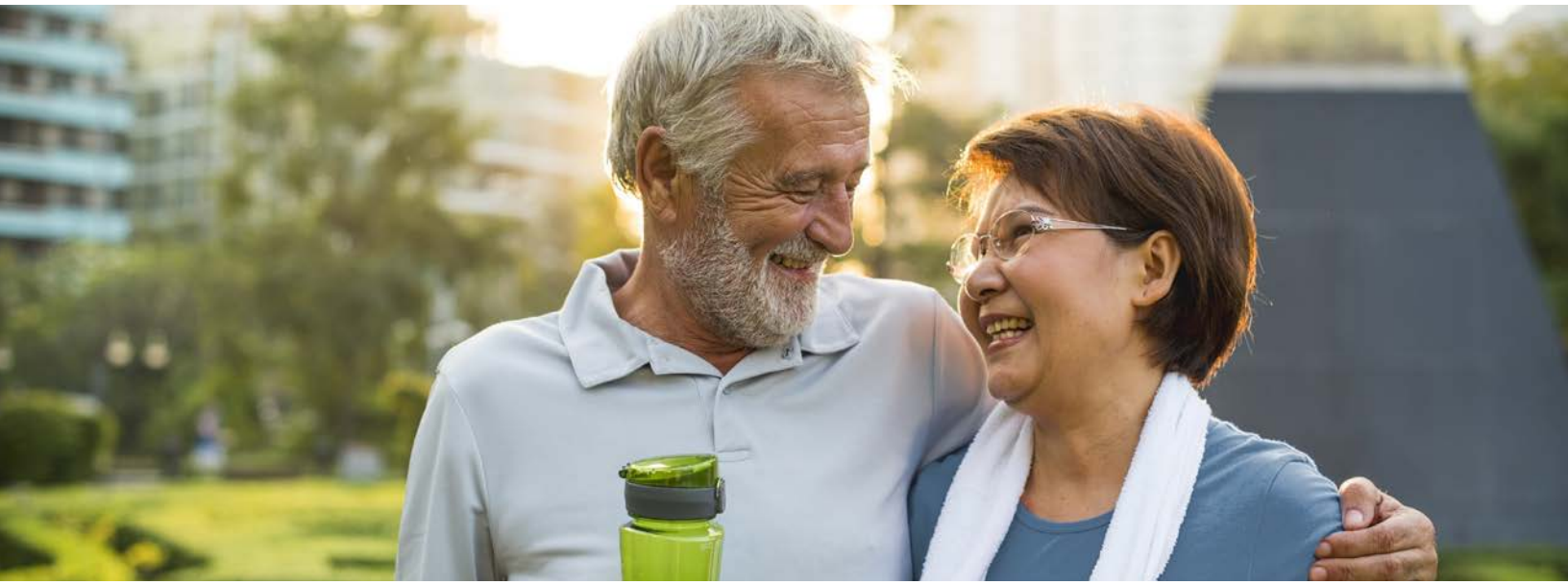
Also updated are benchmark retirement health care costs and the percentage of Social Security benefits that will be required to cover them. As revealed in HealthView's latest paper, "The High Cost of Living Longer: Women and Retirement Health Care," because of longer life expectancies, women will continue to pay more for total lifetime health care than men.[2]

For the first time, the 2017 Report highlights the financial benefits associated with behavior modification. Current data show that Americans with specific medical conditions, such as type II diabetes or high blood pressure, have some control over their longevity and health expenditures if they actively change behaviors and follow prescribed treatments. Those who manage their conditions can extend life expectancies, save money, and offset future medical expenses. The Case Study shows how a 50-year-old with type II diabetes can live eight years longer – and increase annual in-retirement income by almost $17,000 – by making specific lifestyle changes and following diabetes-care protocol.

Americans are not powerless when it comes to reducing costs. This year's Report shows that at an individual level, behavior modification and a long-term savings plan will reduce the impact of retirement health care costs.

Although efforts to repeal and replace the Affordable Care Act (ACA, also known as Obamacare) will primarily impact working Americans, there are some provisions that may affect retirees. These include free access to preventative care and the closing of the Part D "donut hole." (Proposed changes to Medicaid funding may well impact long-term care, which is not covered in this Report.) At the time of this writing, it is uncertain which elements of the ACA will be retained, but new legislation is unlikely to have a significant impact on the projections in this paper.

[1] Source: Bureau of Labor Statistics. https://data.bls.gov/timeseries/CUUR0000SA0L1E?output_view=pct_12mths
[2] http://www.hvsfinancial.com/wp-content/uploads/2016/12/Women_Retirement_Health_Care.pdf



SECTION 2: HEALTHVIEW'S DATA AND ASSUMPTIONS

HealthView Services draws upon 70-million health care cases, actuarial, and government data to project retirement health care costs. The firm's rigorous bottom-up approach integrates specific variables that will drive future health care expenses, including health status, age, gender, income, and state of residence. The final calculations draw upon, and are consistent with, government health care inflation forecasts.

Retirement health care cost projections include Medicare Parts B and D,* supplemental insurance premiums, and dental premiums. It is assumed that most Americans paid Medicare taxes while employed and will not be responsible for Medicare Part A. National averages are used for supplemental insurance premiums, which vary by state. Total lifetime projections comprise all out-of-pocket (OOP) expenses related to hospitalization, doctors and tests, prescription drugs, vision, dental hearing services, and hearing aids.

Calculations assume actuarial longevity for different health conditions and ages.

Unless otherwise indicated, the Report relies on present value dollar estimates, which include inflation assumptions. When necessary, future value dollar estimates are also used.

Long-term care expenses are not factored into cost estimates in this paper.

As with any aspect of retirement planning, actual costs for individuals may vary from these averages.

* National average

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Highlights and Year-Over-Year Comparisons

1) Total projected lifetime health care premiums (Medicare Parts B and D, supplemental insurance, and dental insurance) for a healthy 65-year-old couple retiring this year are expected to be $321,994 in today's dollars ($485,246 in future dollars). Adding deductibles, copays, hearing, vision, and dental cost sharing, that number grows to $404,253 in today's dollars ($607,662 in future dollars).

2) Medicare Part B premiums grew by 16% in 2016. The Medicare Board of Trustees originally projected a 24% Part-B decrease for 2017;[3] instead, premiums increased 10%. The Trustees estimate a 1.3% decrease in 2018.

3) Retirement health care cost inflation is projected to rise by 5.47% annually for the next decade, more than twice the amount of estimated Social Security COLAs. The average cost of supplemental insurance will rise at 7.12%, driven by annual projected premium inflation of 3.80% and an additional annual age-based increase of 3.32%.

4) HealthView's Retirement Health Care Cost Index® shows that a 66-year-old couple retiring this year will require 59% of their Social Security benefits to cover total retirement health care costs. A 55-year-old couple will need 92% of benefits, and 45-year-old couple, 122%.

5) Women will face higher lifetime health care costs because they will live, on average, two years longer than men. Expected health care costs (for Medicare Parts B and D, a supplemental insurance policy, and all out-of-pockets) for a healthy 63-year-old woman retiring this year (living to age 89) are projected to be $362,607 (in future dollars) – 29.9% more than a 65-year-old male ($279,176).

6) Health care will be one of the most significant retirement expenditures; however, the savings required to cover this expense may be modest - especially if one has been utilizing an income replacement ratio (IRR) of 75% to 85%. Retirees can also significantly reduce costs by optimizing retirement portfolios to address health care needs.

7) A 50-year-old male with type II diabetes can save (an average of) $5,000 per year in pre-retirement health expenses by shifting from Poorly Managed to Well Managed care. The difference in projected life expectancy is eight years.

8) In addition to basic Medicare premiums, supplemental insurance, and projected average out-of-pocket costs, today's 55-year-olds will need an extra $7,123 (male) and $7,681* (female) for copays and other expenses in their final two years of life. These figures do not include long-term care (LTC) costs.

[3] https://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and reports/reportstrustfunds/downloads/tr2016.pdf
* In future dollars

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SECTION 3: HEALTH CARE COST ANALYSIS

Health Care Costs and the Average American Couple Retiring Today

The following analysis (Table A) reviews future health care costs for a 65-year-old couple retiring this year, as well as a 55-year-old and 45-year-old couple retiring at age 65. All calculations assume that a healthy male and female will have life expectancies of 87 and 89 respectively, and will have a combined future modified adjusted gross income (MAGI) of under $170,000.

Table A – Cost Projections for Medicare Parts B and D, Supplemental Insurance Premiums, Dental Premiums, and Out-of-Pocket Expenses

	Premiums	Out-of-Pocket	Total Costs (Present Value)	Total Costs (Future Value)
65-year-old couple	$321,994	$82,258	$404,253	$607,662
55-year-old couple	$410,002	$88,961	$498,962	$1,010,223
45-year-old couple	$537,480	$97,662	$635,142	$1,730,774

According to the latest data, a 65-year-old couple will pay $404,253 ($607,662 in future dollars) for total lifetime health care costs. This figure may come as a surprise to those transitioning from the workforce who only pay (approximately) 25% of group-plan premiums. In retirement, Americans become responsible for 100% of their health care expenses, including premiums, copays, deductibles, and all other out-of-pockets.

Because of the compounding effect of rising health care inflation, in ten years, a 55-year-old couple will pay 25% more for the same coverage. In two decades, equivalent insurance will cost a 45-year-old couple over $635,000.

Highlighted in Table B (which includes out-of-pocket costs for hospitalization, doctors and tests, prescription drugs, vision, dental, and hearing), as a 65-year-old couple ages, monthly premiums and out-of-pocket costs will increase dramatically due to the compounding effect of health care inflation. The once-manageable $947 monthly outlay will almost double by age 75 and grow to $3,267 per month – a 245% increase – at age 85.

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Table B - Cost Projections for a 65-Year-Old Couple for Medicare Parts B and D, Supplemental Insurance, Dental Insurance and Out-of-Pockets (in Future Dollars)

	Age 65	Age 70	Age 75	Age 80	Age 85	Overall Costs (to Age 87)
Monthly Costs	$947	$1,269	$1,755	$2,408	$3,267	
Annual Costs	$11,369	$15,226	$21,064	$28,900	$39,208	$607,662

Table C provides total cost projections in five-year intervals (up to age 85) and reveals the impact of retiring in 2017 versus 2016. The primary cause of the substantial one-year jump of 6.3% (Column 1, Table C) can be traced to the 10% increase in Medicare Part B premiums. Looking five years ahead, the inflation rate is projected to drop to 4.6%, which can be attributed to the 1.3% reduction in premiums estimated by the Medicare Board of Trustees in 2018. Of course, if premiums rise next year, these increases could be higher.

Table C - Total Health Care Cost Projections in Five-Year Intervals for a 65-Year-Old Couple (to Ages 87, 89)

	Age 65	Age 70	Age 75	Age 80	Age 85
2016	$10,699	$14,623	$20,255	$27,765	$37,639
2017	$11,369	$15,226	$21,064	$28,900	$39,208
% Increase	6.3%	4.6%	5.0%	5.1%	5.1%

Through a short-term lens, the average 65-year-old couple that retires in 2017 will pay $11,369 in their first year for health care – $670 more than the same couple retiring in 2016. By age 85, those 2017 retirees will spend $39,208 (or $1,915 more for the same coverage than last year's retirees).

Retirement Health Care Inflation

The primary driver behind rising costs is retirement health care inflation. Using a bottom-up calculation, Health View projects an annual increase of 5.47% for the foreseeable future.

The following table provides anticipated inflation rates for Medicare Parts B and D, and supplemental insurance premiums.

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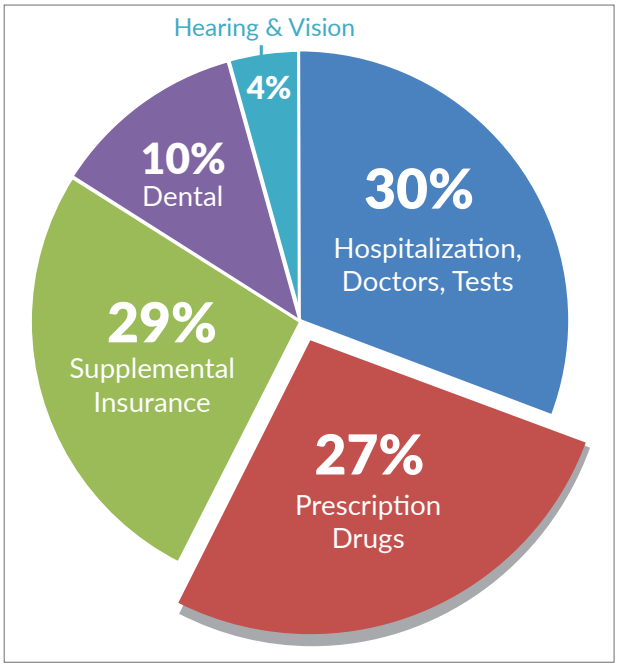
Table D – Medicare Part B and D, and Supplemental Insurance Inflation Rates

Service	Inflation from 2016 to 2017	Inflation from 2018 to 2025
Medicare Part B	10.02%	3.57%
Medicare Part D	8.00%	8.00%
Supplemental Insurance	3.80%	3.80%

Part B premiums rose 10.02% ($121.80 to $134.00) from 2016 to 2017. Factoring the latest projections from The Medicare Board of Trustees, Part B premiums are expected to rise by an average of 3.57% from 2018 to 2025 (culminating with a $176.30 premium in 2025). At first glance, the Part B inflation estimates for the next eight years may seem low, but it is important to remember that this figure includes next year's 1.3% projected decrease in premiums.

Part D premiums are anticipated to grow at 8% annually for the foreseeable future, which is more than 2.5 times an average U.S. inflation rate of approximately 2.7% (over the past 20 years). According to the Congressional Budget Office (CBO), spending on Part D benefits will total $94 billion in 2017, representing 15.6% of net Medicare outlays.[4] Driven by this higher inflation rate, prescription drugs will occupy a larger portion of health-related expenditures in retirement.

Figure 1 - 2027 (Projection): HealthView Services



In 2010, prescription drug benefits comprised 12% of all Medicare expenses,[5] and rose to 15.6% in 2017. [6] On this trajectory, prescription drugs will represent 27% of all Medicare-related expenditures in 2027. (See Figure 1.)

Supplemental insurance policies (also known as Medigap) are influenced by two distinct variables: inflation and a year-to-year age-based cost adjustment.

Next year, the inflation rate for supplemental insurance is projected to grow by 3.8%; however, age-rating will tack on an additional 3.32%. (The two figures combined are 7.12%). In terms of actual price, a person who paid $1,650 (the national average) for supplemental plan F monthly premiums will see payments rise to 1767 because they incorporate inflation and age rating.

[4] https://www.cbo.gov/sites/default/files/51302-2016-03-Medicare.pd
[5] "March, 2011 Medicare Baseline," Congressional Budget Office
[6] https://www.hhs.gov/about/budget/fy2017/budget-in-brief/cms/medicare/index.html

Table E –Projected Cost-Sharing Inflation Rate from 2017 to 2018

Service	Projected Inflation Rate
Hospitals	3.00%
Doctors and Tests	3.40%
Prescription Drugs	3.66%
Dental	5.00%
Hearing Services	5.00%
Hearing Aids	5.00%
Vision	5.00%

The majority of out-of-pocket costs stem from hospitals, doctors and tests, and prescription drugs, which will increase between 3% to 3.66%. These rates remain relatively low and appear to be more aligned with historic U.S. inflation rates and previous Data Report projections. Dental, hearing, and vision will increase by 5%.

Social Security COLAs are Failing To Keep Pace with Rising Health Care Costs

Underscoring the power of inflation, a 65-year-old couple retiring today will pay $28,954 more in total lifetime retirement health care costs than a couple who retired one year ago.

Social Security COLAs aren't keeping up. COLAs were 0% in 2016 and 0.3% in 2017 - far below the historical average (3.8%) and current inflation rates. COLAs are expected to rise at an annual level of 2.6% for the foreseeable future, less than half of the expected retirement health care cost inflation of 5.47%.

Social Security COLAs have consistently lagged behind health care costs. Table F shows the history since 1975.

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Table F - Social Security COLAS by Calendar Year

Social Security Cost-of-Living Adjustments (COLAs)

Year	COLA	Year	COLA	Year	COLA
Jul 1975	8.0%	Jan 1990	4.7%	Jan 2005	2.7%
Jul 1976	6.4%	Jan 1991	5.4%	Jan 2006	4.1%
Jul 1977	5.9%	Jan 1992	3.7%	Jan 2007	3.3%
Jul 1978	6.5%	Jan 1993	3.0%	Jan 2008	2.3%
Jul 1979	9.9%	Jan 1994	2.6%	Jan 2009	5.8%
Jul 1980	14.3%	Jan 1995	2.8%	Jan 2010	0.0%
Jul 1981	11.2%	Jan 1996	2.6%	Jan 2011	0.0%
Jul 1982	7.4%	Jan 1997	2.9%	Jan 2012	3.6%
Jul 1983	3.5%	Jan 1998	2.1%	Jan 2013	1.7%
Jul 1984	3.5%	Jan 1999	1.3%	Jan 2014	1.5%
Jan 1985	3.5%	Jan 2000	2.5%	Jan 2015	1.7%
Jan 1986	3.1%	Jan 2001	3.5%	Jan 2016	0.0%
Jan 1987	1.3%	Jan 2002	2.6%	Jan 2017	0.3%
Jan 1988	4.2%	Jan 2003	1.4%		
Jan 1989	4.0%	Jan 2004	2.7%		

Retirement Health Care Cost Index

In 2017, the average 66-year-old couple will require 59% of their lifetime pre-tax Social Security benefits to cover total lifetime retirement health care costs, compared to 57% in 2016.* A 55-year-old couple will need 92% (compared to 88%), and a 45-year-old couple 122% (compared to 116%). These increases reflect the expanding gap between health care inflation and Social Security COLAs.

* In future dollars

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Table G – Percent of Social Security Benefits Required To Cover Total Retirement Health Care Costs: Comparing 2016-2017

Age	2016	2017
66-year-old couple	57%	59%
55-year-old couple	88%	92%
45-year-old couple	116%	122%

Table H examines a 66-year-old couple receiving average Social Security benefits based on a Primary Insurance Amount (PIA) of $2,268 per month ($27,216 per year), which is the national average for a couple in 2017. The chart reveals (in five-year increments) that Medicare premiums will require, on average, 40% of the couple's total Social Security income at age 70 – and up to 76% per year by age 87.

Table H - Annual Projected Costs vs. Social Security COLAs

Average 66-Year-Old Couple*

Age	Annual Health Care Costs	Social Security	Annual Difference	Percent of Social Security Dedicated to Health Care Costs
70	$14,554	$35,946	$21,392	40%
75	$20,058	$40,869	$20,811	49%
80	$27,503	$46,464	$18,961	59%
85	$37,293	$52,828	$15,535	71%
87	$42,148	$55,610	$13,463	76%

If health care inflation continues to grow by 5% to 6% annually, the Index will rise and a greater portion of the couple's benefits will be needed for health care.

Impact Of Longevity

Drawing upon actuarial data, current healthy 65-year-olds are expected to live to age 87 (male) and 89 (female). Assuming they live two years beyond their average life expectancies, (89 and 91 respectively), a couple would pay an additional $49,210 in today's dollars ($101,665 in future dollars) for Medicare Parts B and D, supplemental insurance premiums, and out-of-pocket costs. (Table I)

* All amounts in table are in future dollars

Table I – Difference in Health Care Costs (Medicare Part B and D, Supplemental Insurance, Dental Insurance, and All Out-of-Pocket Expenses) for a 65-Year-Old Couple That Lives Two Years Past Projected Life Expectancy

Couple's Life Expectancy	Total Health Care Costs (Today's Dollars)	Total Health Care Costs (Future Dollars)
87/89	$404,253	$607,662
89/91	$453,463	$709,327
Difference (Additional Cost)	$49,210	$101,665

Women, Longevity & Retirement Health Care

According to the 2014 Current Population Survey (CPS), husbands are, on average, 2.3 years older than their wives, and women are projected to live two years longer than men.[7] Taking this into account, a surviving female spouse may become responsible for all personal living expenses for more than four years after her husband passes.

Coupled with the effects of compounding inflation, these extra years mean that females will, on average, spend significantly more for their retirement health care than males.

Let's examine total health care costs between a husband and wife with a two year age difference (broken down by current age).

Table J - Total Retirement Health Care Cost Comparison between Healthy Husband and Wife in Ten-Year Increments*

Ages	Retirement Age	Husband Life Expectancy	Husband Health Care Costs	Wife Life Expectancy	Wife Health Care Costs	Difference
65/63	65	87	$279,176	89	$362,607	29.9%
55/53	65	87	$463,903	89	$607,090	30.9%
45/43	65	87	$794,338	90	$1,132,615	42.6%

* In future dollars, beginning at age 65

[7] https://www.census.gov/hhes/families/data/cps.html

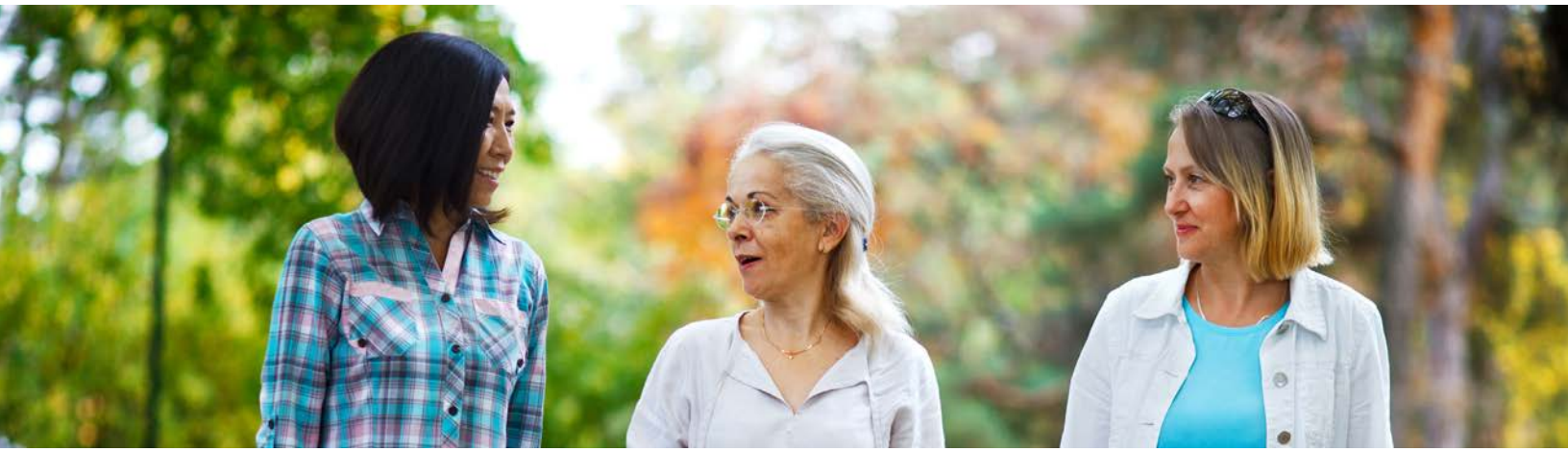
As Table J reveals, a healthy 53-year-old woman will pay $607,090 in future dollars ($207,393 in today's dollars) in retirement health care expenses – almost $143,187 more than a 55-year-old male – because she's two years younger and will live two years longer.* Looking ahead, because of rising health care inflation and an additional year of life expectancy, a 43-year-old single female will pay 42.6% more in health care costs than a 45-year-old male.

End-of-Life Costs

In the last two years of life, retirees need to plan for additional out-of-pocket expenses from more frequent doctor visits, greater use of services, and prescription drugs.

Table K - Out-of-Pocket End-of-Life Costs Related to Hospitalization, Doctor Visits, and Prescriptions Drugs for a 55-Year-Old Male and Female

	Life Expectancy	Medical Expenses in Final Two Years without End-of-Life Costs	Additional Cost: Hospitalization	Additional Cost: Doctors & Tests	Additional Cost: Prescription Drugs	Medical Expenses in Final Two Years with End-of-Life Costs	Difference (%)
Male	87	$132,459	$908	$2,291	$3,923	$139,582	+5.38%
Female	89	$149,194	$1,044	$2,091	$4,546	$156,876	+5.15%
Total		$281,653	$1,952	$4,382	$8,470	$296,457	+5.26%



* For a more detailed perspective, read The High Cost of Living Longer: Women & Retirement Heath Care.

Because they will visit doctors and use services more frequently in their final two years, this couple will incur an additional $14,804 in out-of-pocket expenses. Prescription drugs will comprise 57% of total additional end-of-life expenses – more than hospitalization, doctor visits, and tests combined.

While these additional expenses are a relatively small component of total lifetime costs, they will come at a time when other assets may have been exhausted and aging retirees are most financially vulnerable.

Saving for Retirement Health Care: Income Replacement Ratios

Many financial advisors use income replacement ratios (IRRs) – a percentage of pre-retirement income – to measure how much income clients will need to maintain a desired lifestyle during retirement. Most standard IRRs are between 75% and 85%.

Income replacement ratios incorporate a portion of retirement health care savings, but not all. Since most Americans are only paying 25% of their health care premiums when working, IRRs typically only include this measure in health-expense calculations. IRRs also generally assume that future household expenses, including health care, can be projected using an average U.S. inflation rate of 2.5% to 3%, but this falls short of the 5.47% projected retirement health care inflation rate. The compounding effect of this disparity will widen the gap between retiree savings and health-related expenditures.

Regardless of how much health care is integrated into an IRR, Americans who consistently invest in an IRR-based plan are in far better shape than those who do not. The following is an example of a 55-year-old male with a life expectancy of 87 who plans to stop working at 65, but has not saved for retirement.

Table L outlines the required investment needed to cover Medicare Parts B and D, a supplemental policy, and all out-of-pockets (excluding dental premiums and copays).

Table L - Savings Needed to Cover Health Care* without an IRR-Based Savings Plan

Total Cost for Coverage	Lump Sum Investment at age 55 without IRR Retirement Plan Based on a 6% Return	Annual Savings for 10 Years starting at 55
$425,208	$84,242	$10,798

With over $425,000 in expected future health care costs, he must invest over $84,000, or almost $11,000 per year over ten years, to cover this expense (Table L).

If this 55-year-old had consistently saved in an IRR-based plan (beginning on his 55th birthday), his outlays would be much lower, as indicated in Table M.

* Funding for Part B premiums is assumed to be deducted directly from Social Security benefits

Table M - Savings Needed to Cover Health Care With an IRR-Based Savings Plan

Total Cost for Coverage	Annual Investment Based on a 6% Return	Added Contribution Per Pay Period*
$425,208	$3,022	$77.50

Total costs can be funded with an additional contribution of $77.50 per pay period. If this person chooses an annual lump-sum approach, a $3,022 annual investment for ten years is certainly a reasonable amount to pay for peace of mind in retirement. If savings were aimed to fund only Parts B and D, and supplemental insurance premiums, the additional contribution would be just $17.63 per pay period.

Health Management

This year's Report, for the first time, outlines how the management of health conditions may not only increase life expectancy, but also reduce annual out-of-pocket health care costs. If these savings were invested, they could be used to address future health care expenses or supplement retirement income.

Someone who has type II diabetes, but modifies behaviors to move from Poorly to Well Managed care, can significantly increase savings and longevity. (The same principles apply across a range of common health problems).

Approximately 26% of the population over the age of 65 has type II diabetes.[8] The average life expectancy for someone with this condition is approximately ten years shorter than that of a healthy individual.

HealthView data projects that retirees who properly manage this condition will not only live longer, but also reduce their annual medical expenses. A 50-year-old who follows doctor's orders can potentially add eight additional years to his/her life expectancy and save an average of $5,000 annually in out-of-pocket costs before retirement.**

If the same individual invests this sum into a fund that earns a 6% return, he or she would have over $120,000 by age 65. This would translate into an extra $14,000 per year (assuming the person lives to the actuarial projected age of 80). Add another $2,750 per year in health care savings in retirement, and this individual would have generated almost $17,000 more in annual retirement income.

A much more detailed analysis is provided in the following Case Study.

*Assumes 50% employer match on contributions earnings 6% rate, for each bi-weekly pay period

[8] Centers for Disease Control and Prevention. National diabetes statistics report: estimates of diabetes and its burden in the United States, 2014 http://www.cdc.gov/diabetes/data/statistics/2014statisticsreport.html

** In future dollars, assuming a retirement age of 65

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SECTION 5: HEALTH MANAGEMENT – A CASE STUDY

Mike at 50

The following case study follows a middle-aged man with a health condition who added years to his life and considerable savings to his bank account by managing his condition.

Mike is 50 years old, lives in Indiana, and has just been diagnosed with type II diabetes. Mike's doctor has given him specific guidelines on how to take care of himself to maintain proper health.

Before sharing the data, let's first establish the difference between Poorly to Average to Well Managed care.

Poorly Managed would refer to a person who does not follow his/her physician's treatment plan. Table N shows two columns. Column A indicates the basic standards Mike must adopt to help control his diabetes. The more dedicated he is to following these behaviors, the closer he gets to an Average rating. Column B includes additional lifestyle changes that can help Mike maintain maximum health and attain Well Managed status.

Table N – Diabetes Management Comparison – Poorly to Well Managed Care

A Poorly to Average Managed	B Average to Well Managed
Adopt proper diabetic diet	Stop tobacco use (if applicable)
Take prescribed medications	Maintain cholesterol
Comply with basic diabetic care	Manage hypertension (if applicable)
	Attain an optimal weight
	Choose healthy fats
	Moderate alcohol
	Exercise

First and foremost, as we age, managing health conditions and extending life expectancy become important goals for almost everyone. Table O below reveals how many years Mike can potentially add to his life by properly managing his condition.

Table O – Projected Life Expectancy Difference for a 50-Year-Old Male with Type II Diabetes: Poorly Managed to Well Managed Care

Management Rating	Life Expectancy
Poorly Managed	72
Average Managed	76
Well Managed	80

Based on the latest actuarial data, Mike will live to age 72 if he fails to abide by the diabetes-care protocol. However, he can potentially add up to eight years to his life if he adopts certain lifestyle changes. This is a 16% increase in life expectancy – certainly a compelling reason to modify behaviors and follow doctor's orders.

Aside from a longer, healthier life span, condition management can also save Mike a substantial amount of money because proper care translates to fewer doctor visits, services needed, and procedures. The following tables show how much Mike could save if he follows the suggested lifestyle modifications.

Table P-1 – Annual Savings for a 50-Year-Old Diabetic Moving from Poorly to Average Managed Care (HealthView Data)

First Year Savings (Age 50)	$2,158
Last Year of Pre-retirement Savings (Age 64)	$5,283
Average Annual Savings (to Age 64)	$3,551
Total Savings at Retirement	$81,369*
New Life Expectancy	76
Additional Annual Savings	$9,706
Average Annual Reduction in Retirement Health Care Costs (to Age 76)	$1,706
Total Available Disposable Retirement Income	$ 11,412

*Based on a 6% annual rate of return

Table P-1 shows that adopting an Average approach to his diabetic care (as opposed to Poorly) will not only add four years to Mike's life (see Table N), but also save him an average of $3,551 per year in potential pre-retirement health care outlays. If Mike chooses to invest the savings, he will have earned over $81,000 by his 65th birthday.

If Mike continues to maintain this lifestyle throughout retirement, he will save an average of $1,706 per year in medical expenses. Combining investment income and annual medical savings, Mike will have access to over $11,000 annually in extra retirement income through age 76.

If Mike becomes more diligent about exercising, eating right, and moderating alcohol intake, he can move into the Well Managed category and lengthen his life (and strengthen his bank account) even further.

Table P-2 – Aggregate Annual Savings for a 50-Year-Old Diabetic Moving from Poorly to Well Managed Care (HealthView Data)

First Year (Age 50) Savings	$3,158
Last Year of Pre-retirement Savings (Age 64)	$7,729
Average Annual Savings (to Age 64)	$5,196
Total Savings at Retirement	$119,040
New Life Expectancy	80
Average Annual In-Retirement Health Care Savings (to Age 80)	$2,775
Average Annual Income Increase during Retirement (to Age 80)	$14,199
Total Available Disposable Retirement Income	$16,974

By adding the lifestyle changes cited in Column B of Table N, Mike will save, on average, over $5,000 annually from age 50 to 64; invested at a 6% return, this will generate almost $120,000 in savings, or an extra $14,199 per year (excluding a $2,774 reduction in retirement health care expenses) in disposable retirement income.

To put this in some perspective, the average 50-year-old male who claims Social Security at 65 will earn $25,450 per year (plus COLAs) until age 80. According to the data, Mike can increase disposable income by $16,974 - adding over 66% to his annual Social Security benefit – just by taking care of himself.

And once again – most importantly – Mike will be healthier and live eight more year

* Based on a 6% annual average return from age 50 to retirement at age 65

To recap, once Mike is diagnosed, if he follows his doctor's advice, changes his diet, takes his medication, and properly manages his type II diabetes, he will add almost $17,000 per year in additional retirement income – certainly some positive news against the backdrop of ever-rising retirement health care costs.

SECTION 6: CONCLUSION

Consistent with data from the past three years, HealthView's projected retirement health care inflation rate of 5.47% will continue to outpace an average Social Security COLA of 2.6%. This means that current and future retirees will see medical expenses consume more of their gross Social Security income. There are also inherent cost drivers related to age-rating (in supplemental insurance) and out-of-pocket costs as well.

Projected health care premiums and other out-of-pocket costs for a 65-year-old couple are $404,253 in today's dollars ($607,662 in future dollars). It is also worth noting (and should be addressed in financial plans) that because of longer life expectancies, women will continue to pay more in total retirement health care costs than men.

End-of-life expenses in the final two years of life will make affording quality care even more difficult (for both men and women). A current 55-year-old will incur between $7,123 (male) and $7,681 (female) in total additional medical expenditures during the final two years of life. Because of the compounding effect of health care inflation, younger individuals will be even more susceptible to this expense. A 30-year-old male will pay $13,784 – and a female will pay $15,520 – in additional health care costs in their final two years. This is on top of projected premiums, copays, and deductibles.

Fortunately, Americans do have the power to potentially reduce costs: by changing behaviors and committing to a long-term savings plan. As the Case Study reveals, a 50-year-old male with type II diabetes who follows doctor's orders can potentially add eight years to his life expectancy and generate an additional average of $16,974 in annual retirement income. This figure can vary depending on age and health conditions, but it is reassuring to know that individuals who modify behaviors and make logical lifestyle choices can benefit from lower health-related expenses.

According to the data, individual choices related to health and savings are among the key issues that need to be discussed when planning to address future retirement health care costs.

HealthView SERVICES

About HealthView Services

Founded in 2008 by a team of seasoned financial professionals, health care industry executives, and expert physicians, HealthView Services is the nation's leading producer of health care cost-projection software. The firm's suite of tools is designed to prepare current and future retirees for the impact of retirement health care costs.

The company's signature service, HealthWealthLink, is an integrated retirement-planning platform that draws upon cost data from more than 70-million annual health care cases to create personalized estimates of retirement health care costs. The system also furnishes advisors with the necessary tools and information to implement financial strategies that can help clients offset this expense and achieve retirement goals.

HealthView has emerged as a respected thought leader in addressing the issue of affording quality health care in retirement, and the company has produced extensive educational content on the importance of integrating medical expenses into the planning process. The company has also released white papers on topics ranging from health care cost-management strategies to income replacement ratios.

HealthView's unique approach to retirement planning and unparalleled expertise in health care cost projections has placed the firm at the forefront of this emerging domain.