

NATIONWIDE INSTITUTESM

Health care costs in retirement



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Financial



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Getting to the heart of the matter

Health care

It will be one of your biggest expenses in retirement.

Yet many people who are nearing retirement don't understand the risks health care costs pose to their financial plan. So they aren't preparing for them.

4 out of 5
people cannot accurately estimate how much they expect to pay for health care in retirement.¹

¹ Nationwide Survey "Health Care Costs in Retirement."
Consumer study of 625 respondents, January 2012.

Medicare and retiree health insurance benefits may cover a portion of these expenses, but many will pay a significant amount of their retirement health care costs out of their own pocket.

Add to this challenge the rising cost of health care and the likelihood of needing long-term care and it's becomes clear that planning for health care costs is important for achieving financial security in retirement.

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Nationwide Financial is committed to helping people prepare for and live in retirement with guidance from financial advisors.

As part of this commitment, we're talking about important topics related to financial well-being in retirement, such as the cost of health care.

With this guide, we break down and simplify many complex issues around paying for health care in retirement, including:

4	Health care challenges <i>How health care costs add to the risks you face in retirement</i>
6	Medicare choices <i>What Medicare covers – and what you can expect to pay out-of-pocket</i>
12	Long-term care <i>Why long-term care is an important consideration for you and your family's financial security</i>
18	Starting to plan <i>The steps you can take to begin to plan for your anticipated retirement health care costs</i>

You and your advisor can use this guide as you assess your retirement health care needs and design a financial plan to help you prepare for the costs you'll face.



The new risk to your retirement

?

Did you know...

Out-of-pocket health care
costs for the average
65-year-old couple can reach
\$240,000
over 20 years in retirement.²



What you can do...

Prepare for these costs
now by working with your
financial advisor and learning
the facts about health care
in retirement.



² Fidelity Investments, "The Increasing Cost of Health Care upon Retirement", 2012.

Retirement can be a rewarding time, but it does have challenges. Among the biggest challenges you face is the cost of health care.

Risk changes in retirement

During the years when you're planning and saving for retirement, you're constantly managing the risks to your financial plan such as inflation and potential market declines.

But once you retire, these risks don't vanish. Inflation and market risk is amplified and new risks are introduced – of outliving your savings and of leaving less money for your spouse or other family members.

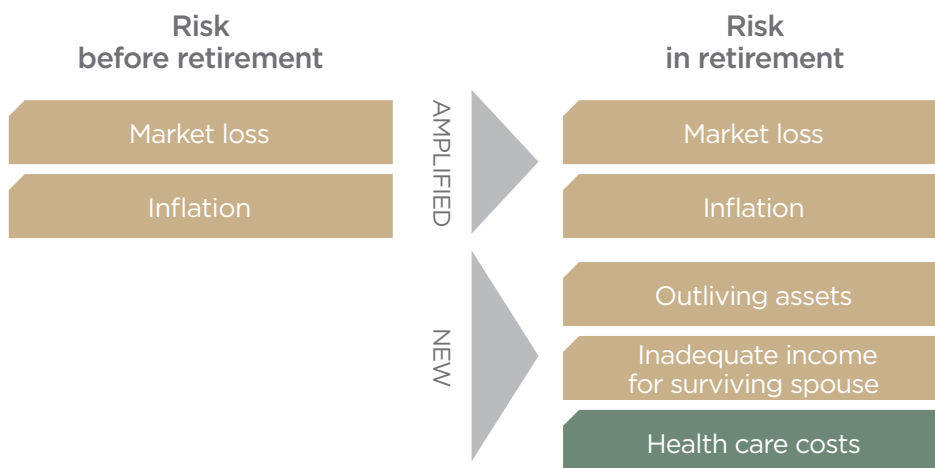
Among these new risks you face in retirement is the cost of health care.

Good to know...

Health care spending is projected to grow 5.8% each year through 2020.³

³ "National Health Spending Projections Through 2020: Economic Recovery And Reform Drive Faster Spending Growth" Health Affairs, July 2011.

Health care is a big-ticket expense for most retirees, especially with rising costs and the likelihood of needing long-term care. If you're not prepared for these expenses, they can put pressure on other aspects of your retirement financial plan and limit the choices you can make later in life.



What's Next: Medicare choices

You may be asking, "Won't Medicare pay for these costs?" It will, but for many, only a portion. Learn how Medicare choices impact your out-of-pocket retirement health care costs in the next section.



Making more of your benefits



Did you know...

Medicare covers around

one-half

of retirees' total health care expenses, leaving many individuals largely responsible for the rest of these costs.⁴



What you can do...

Get a better understanding of your Medicare options and know what the program covers and what comes out of your own pocket.

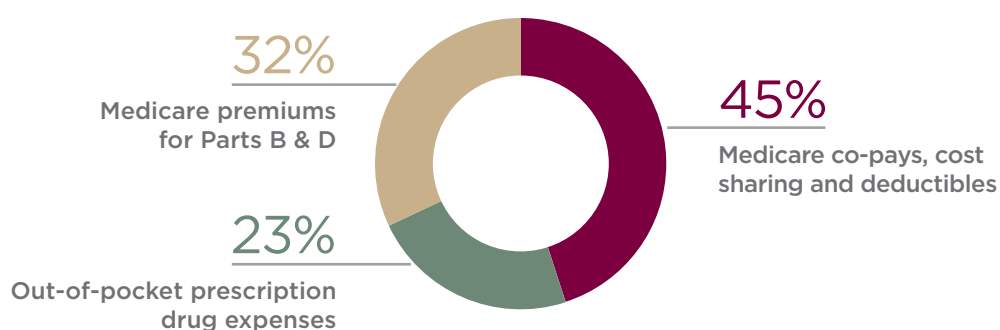


⁴ AARP Public Policy Institute, "Setting the Record Straight about Medicare", Feb. 2012

The decisions you face when you finally reach Medicare eligibility will have an impact on your financial plan throughout retirement.

Many people are surprised to learn, upon signing up for Medicare, that there are costs involved with the program. Even after paying into Medicare throughout your career, you also face monthly premiums and cost-sharing provisions once you're enrolled in the program.

Average out-of-pocket Medicare expenses⁵



5 Fidelity Investments, "The Increasing Cost of Health Care upon Retirement", 2012.

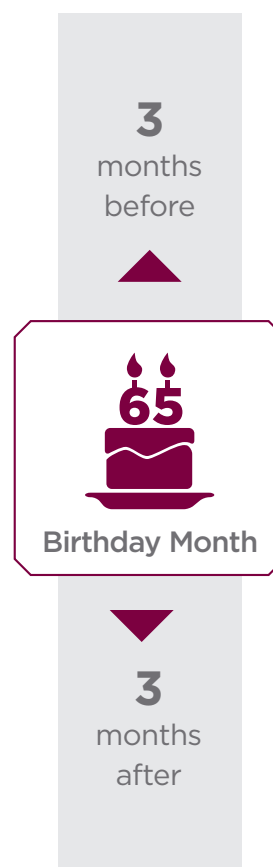
Choice #1: When to apply

Signing up for Medicare is one of the first major decisions you face as you reach retirement age. You're eligible for Medicare benefits in the month you turn 65. During the initial enrollment period, you have a seven-month window to sign up.

Good to know...

If you receive Social Security or disability benefits before 65, you're automatically enrolled in Medicare the first day of the month of your 65th birthday.

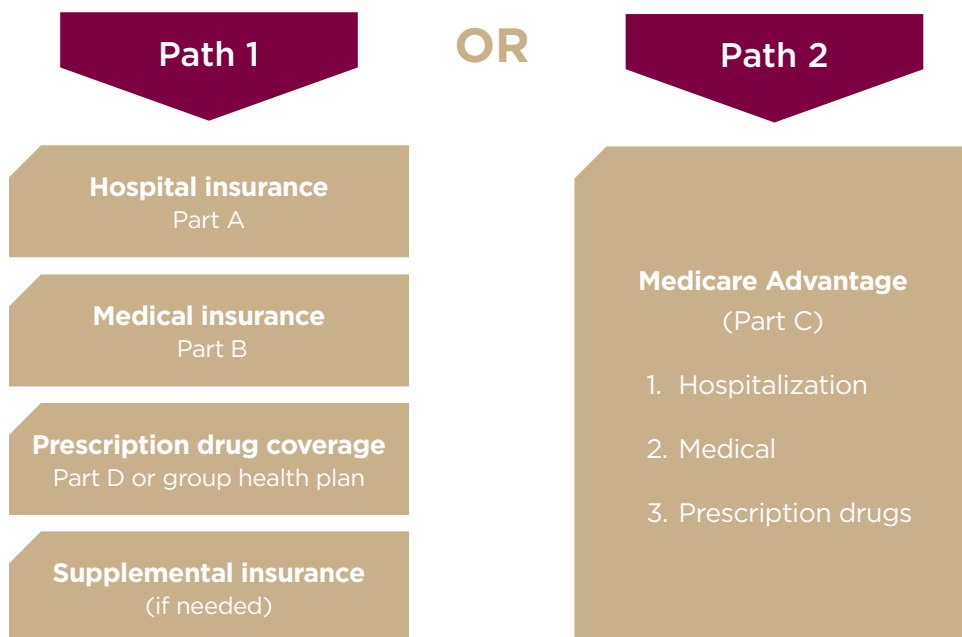
If you don't sign up in this initial period, you'll have the opportunity every year to enroll from January to March. But if you choose to wait, you may pay higher premiums for enrolling later.



Choice #2: Which program

Medicare may seem complex when you see the different parts for the first time. But you really have just two paths to consider for coverage.

Both paths offer coverage for the same services for hospitalization, physician care and prescription drugs, and both come with deductibles, co-pays and premiums for coverage. Path 1 offers a blend of coverage from the government and private health insurers. Path 2 is offered strictly through private insurers approved by the federal Medicare agency.



Medicare ABC's (and D's too)

	What it's called	What's covered	What you pay for
Path 1	Part A: Hospital insurance	<ul style="list-style-type: none"> • Inpatient hospitalization • Skilled nursing facilities (with limitation and upon meeting qualifications) • Skilled home-based and hospice care (not long-term) 	<ul style="list-style-type: none"> • No monthly premiums • Yearly deductible • Daily co-pays for first 150 days of treatment
	Part B: Medical insurance	<ul style="list-style-type: none"> • Doctor & physician services • Preventive benefits • Durable medical equipment • Outpatient services 	<ul style="list-style-type: none"> • Monthly premiums • Yearly deductible • Co-insurance on physician services and outpatient care
	Part D: Prescription drug coverage	<ul style="list-style-type: none"> • Plans offered by private insurance companies approved by Medicare • Covered drugs vary by plan 	<ul style="list-style-type: none"> • Monthly premiums • Yearly deductibles • Co-pays before and after the "coverage gap" • Discounted costs within the "coverage gap"
Path 2	Part C: Medicare advantage	<ul style="list-style-type: none"> • Offered by private insurance companies approved by Medicare • Includes Parts A & B • Most plans include Part D • May cover hearing, dental and vision treatment 	<ul style="list-style-type: none"> • Monthly premium for Part B • Deductibles and co-pays will vary by plan

Covering the gaps

Even though Medicare covers many services and expenses, there are costs that fall in the coverage gap — and will come out of your own pocket.

Supplementing Medicare benefits

To cover this gap, many retirees turn to supplemental insurance or choose to continue health insurance benefits from a former employer. This coverage is offered through private insurance plans, which can set their own rules and cost provisions for participating retirees.

Good to know...

*Only **one in six** large employers (more than 500 employees) offer health insurance coverage to Medicare-eligible retirees.⁶*

6 Mercer National Survey of Employer-Sponsored Health Plans, Mercer, 2011

As a general rule, Medicare pays its share of health care costs first, then any secondary insurance pays its share. But there are other important points you should keep in mind as you consider these options:

Retiree health insurance coverage (Group health plans)

- Offered voluntarily by companies, who control coverage
- Enrollees are responsible for paying premiums, co-pays, shared costs and deductibles
- May include coverage for spouses
- May not cover costs while you're eligible for but not yet enrolled in Medicare

Medigap plans

- Must be enrolled in Medicare A & B to qualify
- Spouses must have separate policies
- Monthly premium paid to the insurance provider in addition to monthly Medicare Part B premium
- Prescription drugs not covered (coverage available through Medicare Part D)

Medicare premiums: Adding them up

What costs will you face just for enrolling in Medicare? Let's look at a sample of what an individual and a married couple would pay for Medicare premiums in 2012.

For this example, we're assuming a modified adjusted gross income in retirement below \$170,000. All individuals are also healthy and have no additional health care expenses besides Medicare premiums.

	Monthly	Annual
Medicare Part A	\$0	\$0
Medicare Part B	\$99.90 ⁷	\$1,198.80
Medicare Part D	\$33.00	\$400 ⁸
Medigap Plan (supplemental)	\$178	\$2,136 ⁹
Total per person	\$311.23	\$3,734.80
Per couple	\$622.46	\$7,469.60

7 The Official U.S. government Medicare Handbook, Medicare & You, 2012

8 Medicare Part D premiums are on average about \$400 per year (varies by State) and are subject to the plan a person selects.

9 Medigap Insurance can vary by carrier and state. The average plan in 2011 was \$178 per person per month for an annual cost of about \$2,136.

Even without considering expenses for medical treatment, your costs just to enroll in Medicare and supplemental insurance coverage can have an impact on your financial plan for retirement.

What's Next: Long-term care

Choosing the right Medicare option and planning for out-of-pocket expenses is just one part of the retirement health care equation. In the next section, you can learn about the other part: long-term care.



Preserving your financial choices

?

Did you know...

7 out of 10

individuals over age 65
will need long-term care at
some point in their lives.¹⁰



What you can do...

If you haven't planned for
long-term care, it's time to
consider these costs as
part of your financial
plan for retirement.

¹⁰ LTCI's Revolutionary Evolution, Nov. 1, 2011
Life Insurance Selling.

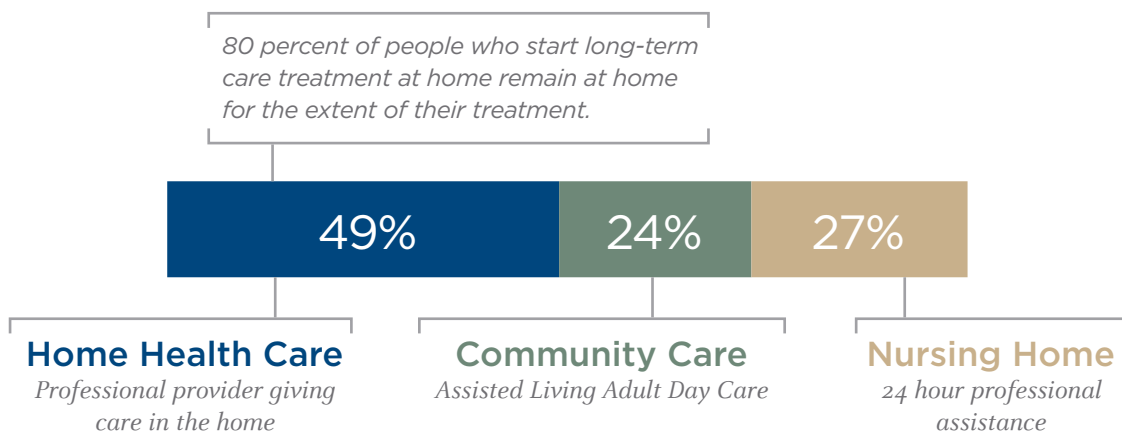


Planning ahead for the likelihood of needing long-term care can make the difference between financial security and devastation.

Long-term care (LTC) is a topic most people don't want to talk about. Many think long-term care means "nursing home". But the fact is most long-term care happens in the home, while others receive assisted living care at community facilities.

Where long-term care happens

Percent of LTC claimants receiving care in these locations.¹¹



¹¹ American Association for Long-term Care Insurance (AALTCI) 2011 Sourcebook.

Too important to ignore

There's a strong likelihood you or your spouse will need long-term care at some point after age 65. And the total cost of LTC treatment can easily approach or exceed \$200,000.

Average total costs for different LTC service over the course of treatment¹²

Home health care*	Adult day care*	Assisted living	Nursing home (Semi-private room)	Nursing home (Private room)
\$196,560	\$81,900	\$187,758	\$195,275	\$218,087

¹² Market survey of long-term care costs, Mature Market Institute, October 2011.

You may also think Medicare or retiree health insurance benefits will pay for long-term care expenses. This is generally not true.

The fact is, the burden for paying LTC costs rests almost entirely on individuals and their families. That's why planning in advance for your long-term care needs is important for preserving your financial choices and your family's financial security.

Is Medicaid a solution?

While state-run Medicaid programs cover long-term care expenses for some people, Medicaid is not a realistic long-term care solution for most individuals.

As designed, Medicaid is meant to assist impoverished individuals with medical expenses. But in order to meet the Medicaid requirements to pay LTC costs, you cannot have more than \$2,000 in qualified assets and your annual income has to be near or below federal poverty guidelines.

Trying to qualify for Medicaid coverage for long-term care expenses would require difficult choices that can have an adverse financial impact on you, your spouse and your family. A more realistic solution is to consider long-term care costs in your overall financial plan. Having a plan for long-term care in place can help protect you and your family from potential impoverishment, give you flexibility in choice should you need long-term care services, and preserve assets you hope to leave to loved ones.

To qualify for Medicaid you must:

Have income below or near
the federal poverty level

Assets less than \$2,000

Five year look-back on assets

Varies by state guidelines



How LTC affects women

Statistically speaking, women are the more fortunate sex in living longer lives. But those extra years can be a struggle for women who are widowed — especially after a losing a spouse following a period of long-term care.

Good to know...

Life expectancy at age 65 (2009)



Women: 85.3 years



Men: 82.6 years

Health, United States, 2011. U.S. Dept. of Health & Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics. May 2012. DHHS Pub. No. 2012-1232.

For married couples, long-term care planning takes on added significance.

- Planning helps a surviving spouse avoid financial impoverishment by covering LTC costs for an ailing partner
- Because the surviving spouse will likely be alone when long-term care may be needed, planning helps ensure they have the financial resources to provide flexibility and choice in care

Informal care comes at a cost

For many people in the early stages of chronic health conditions, care is initially provided at home and by family members. And more often than not, it's women who are providing this informal care.

Informal caregiving can take a physical and financial toll on women, who must manage responsibilities for themselves and their families while also attending to care for a chronically ill loved one.



Only 38 percent of women age 75+ still have a spouse to provide care for them.¹³



Greater incidence of depression and heart disease among women caregivers.¹⁴



Lost wages, reduced Social Security and pension benefits result in average loss of \$565K for women caregivers.¹⁴

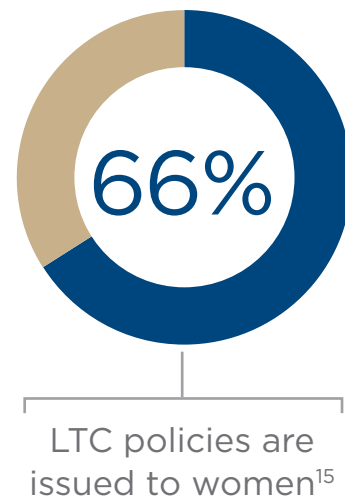
¹³ The 2011 Sourcebook for Long-term Care Insurance Information — AALTCI 2011.

¹⁴ Senior Care Services.Org — “Women’s Guide to Long-term Care”, by Jesse Slome, 2011.

LTC needs as a surviving spouse

Not only are women more likely to be caregivers, they're also more likely to be on their own when they may need care themselves.

Long-term care costs impact women not only as partners in a marriage but also as surviving spouses. That's why it's important for married couples to create long-term care plans together with their financial advisors.



Women are ...

- twice as likely to file LTC claims¹⁵
- the majority of nursing home and assisted living patients¹⁶
- likely to be on LTC claim longer than men¹⁷
- twice as likely to exceed a 3 year claim¹⁷

¹⁵ The 2011 Sourcebook for Long-term Care Insurance Information – AALTCI 2011

¹⁶ U.S. Department of Health and Human Services, National Clearinghouse for Long-Term Care Information, 2011

¹⁷ LTC Partner-Long Term Care Covered, "Choosing the Right Long Term Care Insurance," October 19, 2011

What's Next: Starting to plan

Now that you know more about health care costs in retirement, the next section outlines the steps you can take to develop a plan for these expenses.



Make your plan personal

?

Did you know...

Two-thirds

of investors say advisors are “helpful” or “very helpful” in discussing health care and estimating health care costs in retirement.¹⁸



What you can do...

Start with a personalized estimate of your retirement health care costs by completing a Nationwide Health Care Cost Assessment.

¹⁸ Nationwide's health care cost survey of individuals age 55+ with over \$250K in household assets, Jan. 3-19, 2012.



The first step in planning for retirement health care costs is knowing what to expect. That's where your financial advisor can help.

When you consider all of the decisions you face and the costs you may pay, planning for retirement health care costs can seem daunting.

When it does, remember you're not on your own — your financial advisor is in your corner.

How your advisor can help you plan for retirement health care costs

- Use the Nationwide Health Care Cost Assessment to estimate your expected costs
- Refine your retirement financial plan around this estimate
- Plan for long-term care based on your and your family's needs
- Cover gaps with new funding or portfolio changes as appropriate for your goals

Get the big picture

The Nationwide Health Care Cost Assessment takes information you provide about your health history and family background, and compares it with current trends in health care utilization. The report you receive shows you a personalized view of your anticipated health care costs, including long-term care, throughout retirement.

Your personalized assessment can help you and your advisor better understand how expected health care costs can affect your retirement, and be able to develop a plan around your and your family's specific needs.

What's Next:

Schedule a meeting with your financial advisor – include your spouse and other family members as well – to talk about retirement health care costs and complete a Fact Finder to start the Health Care Cost Assessment.

Financial professionals: For more information, call the Nationwide Financial Income Planning Desk at 877-245-0763 or visit nationwidefinancial.com/healthcare.

SURVEY METHODOLOGY: Data was collected via an online survey by Harris Interactive from January 3 – 19, 2012. Sampling included 625 adults ages 55+ having \$250,000 or more in household assets who plan to retire by 2012 and 625 retired adults ages 65+ having \$250,000 or more in household assets. Results were weighted as needed for age, sex, race/ethnicity, education, region, household income and investable assets. Propensity score weighting was also used to adjust for respondents' propensity to be online.



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