

Retirement Income Planning:

How rising health care costs impact income needs

Presented by:

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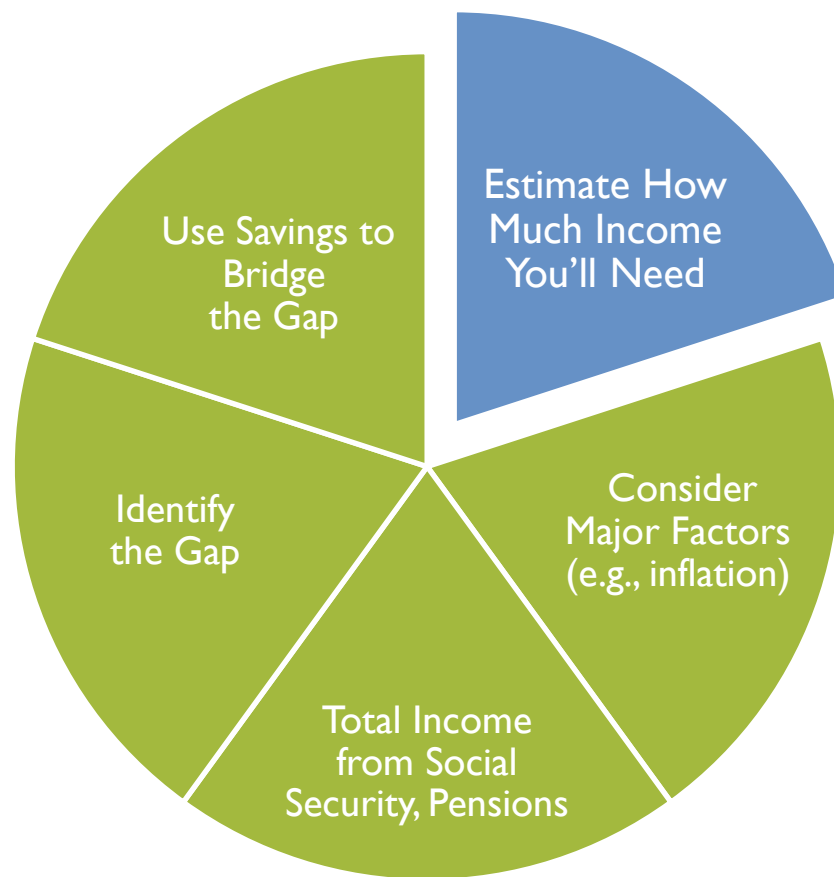
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Agenda

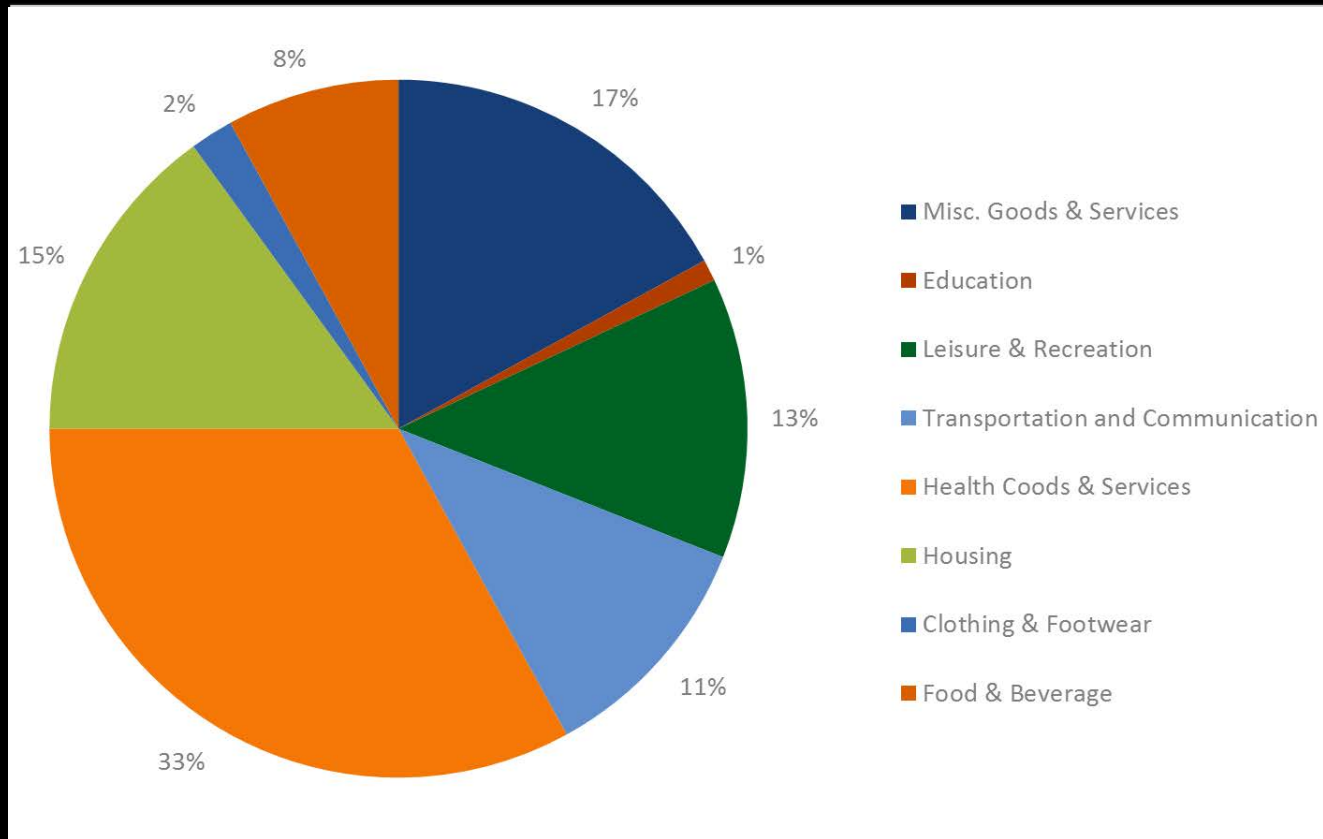
- Retirement income process
- Health Care/Medicare
- Long Term Care
- Social Security

The Process: Retirement Income Planning



Healthcare in Retirement

Healthcare accounts for 33% of expenses for Americans 60 years old and older.



What are the costs in 2017?

| Part A | Subsidized premium |
|------------------|--|
| Part B | \$134 per person per month |
| Part D | \$35.63 average National monthly premium |
| Supplemental | Subject to provider/plan selected |
| Avg. Annual Cost | \$5,140 per person (2017) |
| Per Couple | \$10,280 per couple (2017) |

Source: Centers of Medicare Services (CMS), Medicare Interactive, JPMorgan Guide to Retirement 2017 Edition



Costs keep rising

- 7% (+) Inflation Rate
- Medicare Part B
7.56% since inception
- Medicare Part D
7.15% projected through 2022
- Gap Plan – 3% to 5% since 1993
(AARP)



65 year old Massachusetts couple retiring today and planning to live until age 85 can expect to pay **\$321,994** for Medicare Parts B, D, supplemental and dental coverage

Medicare

- Medicare is means tested
- Your health costs are no longer about medical history
- The more you have in income the more you pay for your health coverage



Current Brackets (2017)

| Income | | Part B | Part D |
|------------------|-----------------|--------------------------|-------------------------|
| Individuals MAGI | Couples MAGI | | |
| \$85k < | \$170k | Premium (\$134) | Premium (varies) |
| \$85k To \$107k | \$170k - \$214k | Premium + \$187.50/month | Premium + \$13.30/month |
| \$107k to \$160k | \$214k - \$320k | Premium + \$267.90/month | Premium + \$34.20/month |
| \$160k to \$214k | \$320k - \$428k | Premium + \$348.30/month | Premium + \$55.20/month |
| Over \$214k | Over \$428k | Premium + \$428.60/month | Premium + \$76.20/month |

Source: Centers of Medicare Services (CMS)

Proposed Brackets (2020)

| Income | | Part B | Part D |
|------------------|---------------------|-------------------------------|---------------------------------|
| Individuals MAGI | Couples MAGI | | |
| \$60k < | \$90k | \$149 per person per month | \$53.26 per person per month |
| \$60k To \$82k | \$90k - \$123k | Premium + 60% | Premium + \$169 |
| \$82k to \$135k | \$123k - \$202.5k | Premium + 120% | Premium + \$436 |
| \$135k to \$189k | \$202.5k - \$283.5k | Premium + 280% | Premium + \$703 |
| Over \$189k | Over \$283.5k | Premium + 360% | Premium + \$970 |

Examples of Income

Social Security

Wage

Pension Income

Rental Income

Capital Gain (including home)

Dividends (including
Municipalities)

Certain Annuities

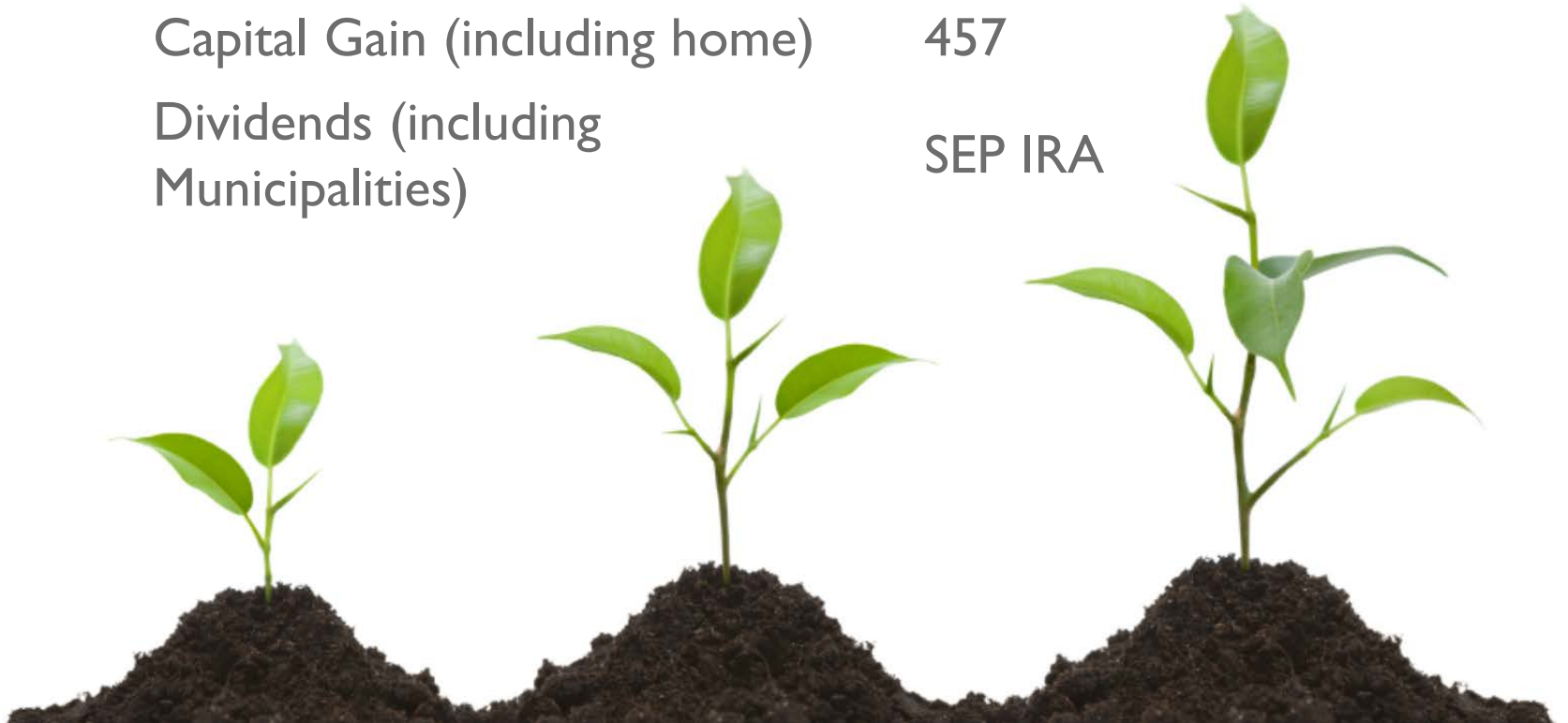
401(k)

Traditional IRA's

403(b)

457

SEP IRA





What is not income

- Roth accounts
- Health Savings Accounts
- Specific Annuities
- Home Equity
- Certain types of Life Insurance

Is Long-Term Care in Your Future?

70% of people turning age 65 can expect to use some form of long-term care during their lives. That's 7 out of 10 people.

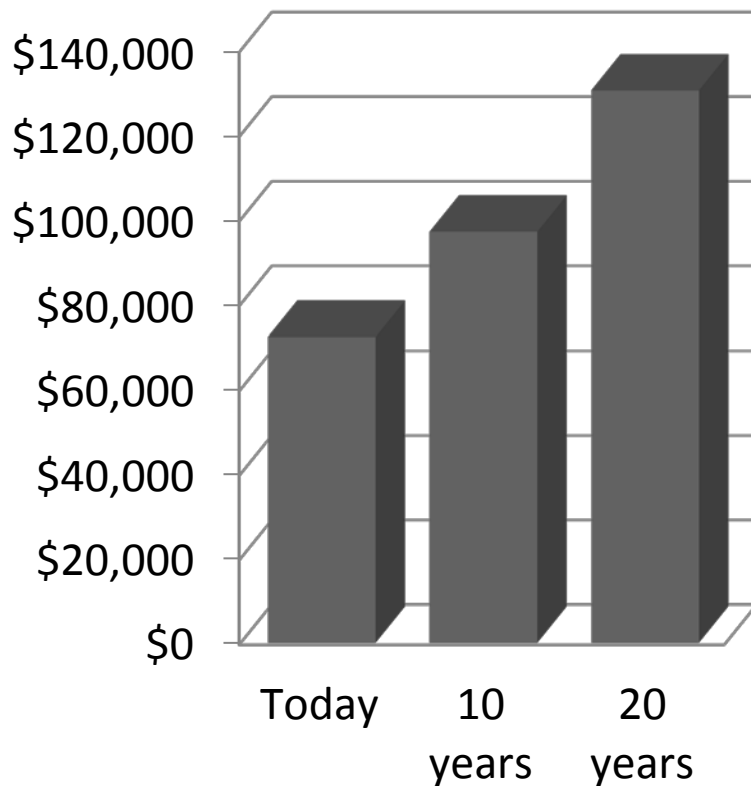




What Is Long-Term Care?

- Ongoing services and support needed because of chronic health condition or disability
- Three levels of care: skilled, intermediate, and personal care
- Care can be provided in a variety of settings

Annual Cost of Nursing Home Care



- Average nationwide cost of nursing home care is \$74,820 per year*
- If costs rise at an average rate of 3% per year, in 20 years the average cost of nursing home care will be approximately \$135,133 per year

*Source: U.S. Department of Health and Human Services, December 31, 2016



How Will You Pay for Long-Term Care?

- Pay out-of-pocket
- Rely on Government programs such as Medicare or Medicaid
- Buy long-term care insurance

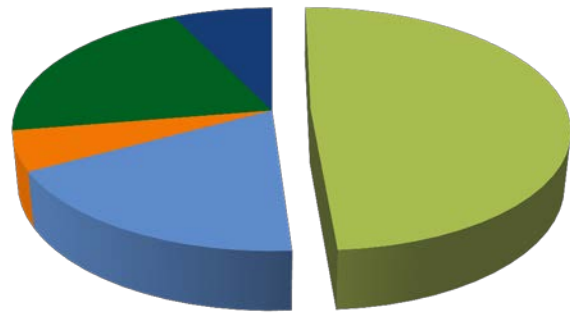
Paying for Long Term Care: Medicare

- Pays costs only after 3-day hospitalization
- Pays full cost of skilled nursing care for only 20 days
- Pays partial cost from day 21 to day 100
- Home health benefits are limited
- Pays nothing after 100 days
- Does not pay for personal or custodial care



Paying for Long-Term Care: Medicaid

Nursing home care expenditures



- Medicaid
- Out-of-Pocket
- Other Public/Private
- Medicare
- LTC Insurance

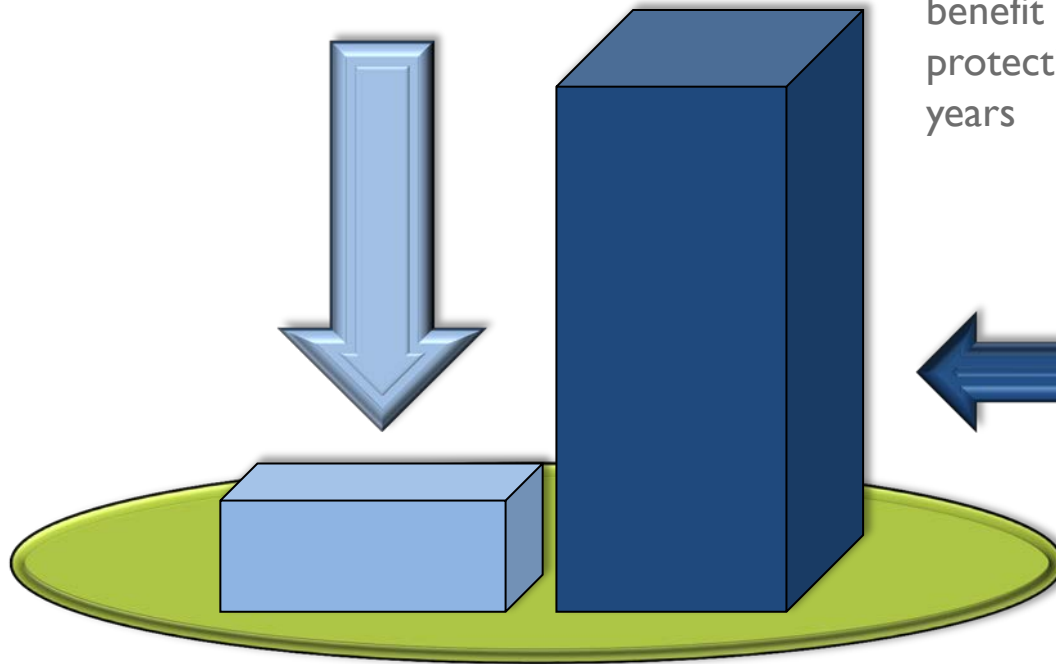
- Medicaid, not Medicare, is the joint federal-state program that pays for long-term care expenses
- Medicaid covers approximately 49% of all nursing home costs

But...

- Medicaid is means-based
- Medicaid limits where you can receive care

Should You Invest Instead?

Investing \$3,042 annually at 5%
after-tax rate of return: \$105,616
accumulated after 20 years*



Paying \$3,042 annual premium for a 3-
year LTC policy with a \$150 daily
benefit and 5% compound inflation
protection: \$435,804 benefit after 20
years

**This chart is hypothetical and
for illustrative purposes only. It is
not intended to represent any
specific investment. Actual
returns will vary and principal
value will fluctuate.*



5 Key Features

Benefit: What is the amount of the benefit payable?

Benefit period: How long will benefits last?

Elimination period: How long will you wait before benefits begin?

Location of care: Does the policy cover care in different settings?

Inflation protection: Will your benefits keep up with rising costs?

Managing the cost

- The younger you are when you buy a long term care policy, the less expensive the premium
- Make sure you can afford the premium now and in the future
- Buy from a reputable company
- Choose features and benefits wisely



How long Will Retirement Last?

According to the National Vital Statistics Report, a 65-year-old man can expect to live, on average, to **83** and a 65-year-old woman to **85**.

According to the SSA, 1 out of 4 retirees will live **past age 90** and 1 out of 10 will live **past age 95**.



How Working Affects Benefits

Before full retirement age



\$1 for every \$2 that earnings exceed annual limit—\$15,720

Year you reach full retirement age



\$1 for every \$3 that earnings exceed annual limit—\$41,880

At or after full retirement age



Earnings will not affect your benefit





Will Your Benefit be Taxable?

Up to 50% of benefit may be taxable if your combined income is*:

- \$25,000 to \$34,000 and you file as single
- \$34,000 to \$44,000 and you file as married filing jointly

Up to 85% of benefit may be taxable if your combined income is*:

- Over \$34,000 and you file as single
- Over \$44,000 and you file as married filing jointly

*Combined income = adjusted gross income + nontaxable income + $\frac{1}{2}$ of Social Security benefit income

Retirement/Spousal Benefits

- Retirement benefits based on your earnings record—at full retirement age 100% of your full retirement benefit
- Spousal benefits based on your earnings record—as much as 50% of your full retirement benefit
- Reduction for filing for spousal benefits early—spouse can't file until retired worker files





Provisions

File & Suspend

- Eliminated as of 4/29/2016 must be Full Retirement Age by then.

Restricted Applications

- Must be age 62 by 1/2/2016 to still qualify for spousal benefits at age 66.

Source: For more information about your options and the benefit application process, contact the Social Security Administration at (800) 772-1213 or visit www.socialsecurity.gov.



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