Wisdom at Work.
Agenda

- The big question (when to retire and at what cost?)
- Social Security…the timetable for election
- (Failed) legislation and its effect on employer-based coverage
- (Failed) legislation and its effect on exchange-based coverage
- The 800-pound elephant (Medicare)
  - A bargain or bust?
- Now what?
Social Security: The Timetable for Election

- A key factor in being able to afford healthcare beyond retirement is to maximize the income stream available from Social Security.
- The timing of election of Social Security benefits has progressed far beyond a gut feeling. It is an important financial decision that requires in-depth analysis based on the specific facts of each situation.
- A misstep in the analysis can cost the worker and spouse hundreds of thousands of dollars during their lifetime.
- Financial planners are urged to utilize the latest software technology to better assist their clientele.
There are three critical factors to consider when determining when best to elect Social Security benefits:

- Life expectancy
- Rate of return (ROR) if you elect to receive benefits before age 70
- Rate of inflation (cost of living)
Social Security

- Let’s dispel the notion that Social Security starts for everyone at age 65

<table>
<thead>
<tr>
<th>Year of Birth</th>
<th>Full Retirement Age</th>
<th>Year Turning Age 62 &amp; First Eligible for Retirement Benefits</th>
</tr>
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<tbody>
<tr>
<td>1943 to 1954</td>
<td>66</td>
<td>2016 and prior</td>
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<tr>
<td>1955</td>
<td>66 and 2 months</td>
<td>2017</td>
</tr>
<tr>
<td>1956</td>
<td>66 and 4 months</td>
<td>2018</td>
</tr>
<tr>
<td>1957</td>
<td>66 and 6 months</td>
<td>2019</td>
</tr>
<tr>
<td>1958</td>
<td>66 and 8 months</td>
<td>2020</td>
</tr>
<tr>
<td>1959</td>
<td>66 and 10 months</td>
<td>2021</td>
</tr>
<tr>
<td>1960 and later</td>
<td>67</td>
<td>2022 and later</td>
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Social Security: To Delay or Not to Delay

- Example: Imagine a prospective 66-year-old retiree who is full retirement age and is currently entitled to a benefit of $1,000/month. He could begin that $1,000/month payment today, or delay a year in order to receive an 8% delayed retirement credit, boosting his benefit to $1,080/month, but forgoing $1,000/month x 12 months = $12,000 in order to get that $80/month boost. Thus, the question arises: how long does it take to recover the $12,000 shortfall with an extra $80/month thereafter? The answer: it takes about 13 years to break even, or age 80.
Social Security: To Delay or Not to Delay

- However, the caveat is that the real “cost” to delay isn’t just the $12,000. That is because the $12,000 could have been invested! (Or alternatively, it’s $12,000 that could have been used for spending, allowing some other $12,000 of the portfolio to remain invested.)

- Which means we have to apply a reasonable growth rate to the $12,000 to account for the time value of money, making it somewhat less appealing to delay.

- At a mere 4% growth rate, the breakeven period extends to almost 18 years.

- At 6%, it’s 25 years.

- At an 8% growth rate, delaying Social Security never breaks even for someone who lives all the way to age 100.
On the other hand, it is important to remember that Social Security gets an annual cost-of-living adjustment. As a result, delaying for a year doesn’t just generate $80/month of benefits. It produces an extra $80/month adjusting for inflation each year thereafter. So it’s an extra $80/month in the first year after delay, but then may go to $82/month, then $85/month, etc., as inflation compounds upward.

In essence, then, the decision to delay Social Security is a trade-off where you “pay” once up front (in the form of foregone benefits) in exchange for receiving a lifetime inflation-adjusting annuity (in the form of higher inflation-adjusting benefit payments every year thereafter).

In our prior example, the breakeven period for a 6% growth rate is reduced to 17 years (from 25 years) by introducing a 3% COLA.
# Benefits – Entitlement and Eligibility

## Spousal Benefits

**Benefit Amount:** 50% of Worker’s PIA

<table>
<thead>
<tr>
<th>Entitled</th>
<th>Eligible</th>
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</thead>
<tbody>
<tr>
<td><strong>Married</strong></td>
<td><strong>Divorced</strong></td>
</tr>
<tr>
<td>Worker must have filed for his/her own benefit</td>
<td>Worker must be at least age 62</td>
</tr>
<tr>
<td>Must have been married for at least one year</td>
<td>Must have been married for at least 10 years</td>
</tr>
<tr>
<td>Must still be currently married</td>
<td>Must be currently unmarried</td>
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</tbody>
</table>
Benefits – Entitlement and Eligibility

**Survivor Benefits**

**Benefit Amount:** 100% of Worker’s PIA, Reduced if Worker Claimed Early, Increased if Worker Delayed

<table>
<thead>
<tr>
<th>Entitled</th>
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</thead>
<tbody>
<tr>
<td><strong>Married</strong></td>
<td><strong>Divorced</strong></td>
</tr>
<tr>
<td>Worker must be deceased</td>
<td>Worker must be deceased</td>
</tr>
<tr>
<td>Must have been married for at least three months before death</td>
<td>Must have been married for at least 10 years</td>
</tr>
<tr>
<td>Must be unmarried, or remarried after age 60</td>
<td>Must be unmarried, or remarried after age 60</td>
</tr>
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(Failed) Legislation and Its Effect on Employer-Based Coverage

- House Republicans passed the American Health Care Act (AHCA) in May 2017, but it was rejected by the Senate.
- The House version of the legislation altered premium tax credits (making them smaller overall and significantly smaller for older enrollees and people in areas where health insurance is more expensive than average) and...
…cut federal Medicaid funding by switching to block grants or per-capita allotments in place of the current open-ended federal match. It would also allow states to seek waivers from some Affordable Care Act (ACA) requirements, including the essential health benefit rules and the requirement that all individual market plans be community-rated, regardless of applicants’ medical history or continuous coverage…
(Failed) Legislation and Its Effect on Employer-Based Coverage

- …but more importantly, cast doubt on the enforceability of the individual and employer mandates, as well as the funding of cost-sharing reductions (CSR) programs.
(Failed) Legislation and Its Effect on Employer-Based Coverage

- A senate version attempting to repeal and replace had similar focus (with significant emphasis on the forthcoming Cadillac tax), but failed to gain its own party majority.
Nebraska did not expand Medicaid under the ACA, so the State did not take full advantage of the ACA’s provisions and would thus not feel the impact of repeal as strongly as states that are fully utilizing the federal funding that was made available by the ACA.

The people who do currently have Medicaid in Nebraska (i.e., those who were already eligible for coverage under the rules that have remained in place since before the ACA was enacted) could face eligibility cuts and benefit reductions if GOP proposals to reform Medicaid—block grants or per-capita allotments—are enacted.
Insurance carriers (whether employer-based or exchange-based) react only one way to legislative uncertainty...adversely.

As long as the individual mandate and CSR programs are in “limbo,” the insurance rates will reflect such uncertainty in a negative manner.

The weight (over seven years) of ACA mandates (essential health benefits, relaxation of annual/lifetime limits, preventative services, etc.) PLUS the additional employer/carrier taxes (PCORI, transitional reinsurance, carrier, etc.) have driven up the cost of employer-based coverage an average of over 6.2% each year since 2010. (Source: Kaiser & Milleman Studies)

As important, with the advent of consumer-driven health plans, employers have reduced their share of the premium split from 66% to 60% in the same time period.

In addition, any negative impact on Medicare/Medicaid has an equally negative impact on employer-based coverage because of the cost-shifting mechanisms employed by these plans.
The Centers for Medicare & Medicaid Services (CMS) is releasing a county-level map of 2018 projected health insurance exchange participation based on the known issuer participation public announcements through September 9, 2017.

This map shows that insurance options on the exchanges continue to disappear. Plan options are down from last year, and in some areas, Americans will have no coverage options on the exchanges based on the current data.
County by County Analysis of Current Projected Insurer Participation in Health Insurance Exchanges

- 17 counties projected to have no carriers (0.54%)
- 1,409 counties projected to have 1 carrier (44.86%)
- 9,595 Exchange participants projected without coverage (0.10%)
- 2,539,894 Exchange participants projected without choices (27.60%)

**Exchange Carrier Number**

- 0 Carriers (17 Counties)
- 1 Carrier
- 2 Carriers
- 3 Carriers
- > 3 Carriers

- All State Exchange data is self-reported from the Exchanges to CMS (CA, CO, CT, DC, ID, MA, MD, MN, NY, RI, VT, WA).
- All data reflected on this map is point in time as of 8/5/2017 and is expected to fluctuate.
- This map represents continued 2017 county-level participation in 2018 unless a carrier has publicly announced otherwise.
- Enrollment numbers reflected are plan selections as of the end of Open Enrollment, January 31, 2017, and do not include enrollment in single carrier counties for State-Based Exchanges.
(Failing) Exchanges

- On August 11, 2017, CMS announced that they were further delaying the deadline for health insurance exchange carriers to release their 2018 premiums.
  - Nebraska: Medica
(Failing) Exchanges

- Insurers in the three states that have published requested rates say their double-digit hikes, which exceed 50% in some cases, may climb even higher if the federal government doesn't take steps to ease their jitters over ACA repeal-and-replace efforts by funding CSR subsidies and enforcing the mandate that requires most people to enroll in coverage.
What’s Driving 2018 Exchange-Based Premium Increases?

- Uncertainty on CRS funding and individual mandate enforcement
- Rate increase without funding and no enforcement of individual mandate: 28-40%
  - Lack of funding for CRS: 11% to 20%
  - Non-enforcement of individual mandate: 9%
  - Federal health insurance tax: 3%
  - Cost of care: 5% to 8%
What’s Driving 2018 Premium Increases?

- CBO estimates that health exchange premiums would rise 20% in 2018 if subsidies ended
  - Wall Street Journal – August 15, 2017
(Failing) Exchanges

- The same pervasive uncertainty over the future of the individual market led several states to extend the deadlines for insurers to file 2018 rates in hope that an extra few weeks to price plans would be enough to ease the insurance industry's jitters over repeal-and-replace efforts and keep them from bailing on the exchanges.
(Failing) Exchanges

- Uncertainty isn't the sole reason rates are going up. Insurers said the pool of individual plan members is growing sicker because fewer healthy members are signing up for coverage.
- Enrollment in the ACA’s insurance exchanges dropped to 12.2 million this year (down from 12.7 million in 2016).
- The return of the health insurer tax and the failure of ACA programs meant to help insurers mitigate risk also helped increase rates.
Failing) Exchanges

- Insurers are more concerned about whether the Trump administration plans to enforce the individual mandate. If the penalty isn't enforced, or if the Trump administration again decides not to support exchange enrollment through advertisements, the hypothesis is there will be a significantly lower number of people joining the exchanges. That's because young, healthy people will be more likely to drop insurance while the sickest, costliest members will remain.
The 800-Pound Elephant: Medicare

- Q: If not employer-based coverage, or if not exchange-based coverage, what are the alternatives?
- A: If age 65 or older…Medicare
The 800-Pound Elephant: Medicare

- Good news: the reward for achieving age 65 is still automatic eligibility for Medicare
- Bad news: this is not your father’s Medicare!
The 800-Pound Elephant: Medicare

- A comprehensive post-retirement medical solution based upon Medicare involves:
  - Part A
  - Part B
  - Medicare supplement
  - Part D

- Late application fees, surcharges and (possible) medical underwriting can complicate the calculation of potential costs…but let's look at a simplified example:
  - Married couple, both turn age 65 in 2017 and plan to retire from their jobs and take Medicare
The 800-Pound Elephant: Medicare

- Part A: hospital insurance – free (in most cases)
- Part B: physician services

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<tbody>
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<td>$85,000 or less</td>
<td>$170,000 or less</td>
<td>$85,000 or less</td>
<td>$134</td>
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<tr>
<td>Above $85,000 up to $107,000</td>
<td>Above $170,000 up to $214,000</td>
<td>Not applicable</td>
<td>$187.50</td>
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<tr>
<td>Above $107,000 up to $160,000</td>
<td>Above $214,000 up to $320,000</td>
<td>Not applicable</td>
<td>$267.90</td>
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<tr>
<td>Above $160,000 up to $214,000</td>
<td>Above $320,000 up to $428,000</td>
<td>Above $85,000 up to $129,000</td>
<td>$348.30</td>
<td></td>
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<tr>
<td>Above $214,000</td>
<td>Above $428,000</td>
<td>Above $129,000</td>
<td>$428.60</td>
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* Two-year delay imposed by CMS
The 800-Pound Elephant: Medicare

- Medicare supplement (many carrier and plan designs to choose from)
  - Plan F is the most comprehensive
  - 65-year-old male will pay $178 per month for a plan that will result in zero out-of-pocket costs
  - Double that for inclusion of a spouse
  - Note: Medicare supplement coverage should be purchased within six months of coverage under Part B in order or avoid medical underwriting
The 800-Pound Elephant: Medicare

- Part D (prescription drugs)
  - Difficult to quote as each covered member has different prescription plan needs at time of disability and enrollment
  - Current plans run between $20 and $37 per month
  - If Part B coverage is adjusted due to income, then Part D is also adjusted. An additional $13 to $76 could be added to base pricing based on income.
The 800-Pound Elephant: Medicare

- Medicare advantage plans may be a less expensive alternative to the traditional approach to Medicare; however, they have the following limitations:
  - Increased out-of-pocket expenses
  - Narrower provider networks
  - Limits on demographic availability
Now What???

- Given the fact that as much as 85% of Social Security income benefits may be taxed at your marginal rate...
- The need to make an informed decision on Social Security benefits is increasingly important as...
- Cost of employer-based, exchange-based or Medicare healthcare coverage will rapidly eat into the remaining after-tax Social Security benefit dollars.
- Plan accordingly!!!
Thank you!