



NATIONWIDE RETIREMENT INSTITUTE®

The Nationwide Retirement Institute® provides practical thought leadership and comprehensive solutions to financial advisors and their clients. Through education and insights, client-ready tools and consultative support, we break down and simplify complex retirement challenges to help advisors and clients plan for a more secure financial future.

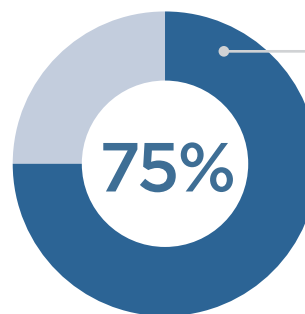
Protecting retirement income starts with planning for health care costs

Talking to clients about their health care costs is more important than ever.

The Nationwide Retirement Institute® **Fourth Annual Health Care and Long-term Care Study**¹ was conducted by Harris Poll, an independent research firm, and included 1,291 workers over age 50. Conducted online between September 23, 2015, and October 1, 2015, the survey centered on understanding attitudes and behaviors of U.S. pre-retirees regarding health care and long-term care in retirement, as well as how well consumers comprehend their Medicare benefits.

Executive summary

Health care costs in retirement are the proverbial elephant in the room. The Nationwide Fourth Annual Health Care and Long-Term Care Study shows that retirees aren't prepared for these expenses, so they avoid the conversation. Clients need financial professionals who understand they feel overwhelmed and can help them start planning.



75% of respondents worry that they won't have enough money to cover health care costs in retirement. But **only 10%** have had the conversation about it.¹

Workers are already avoiding this conversation.

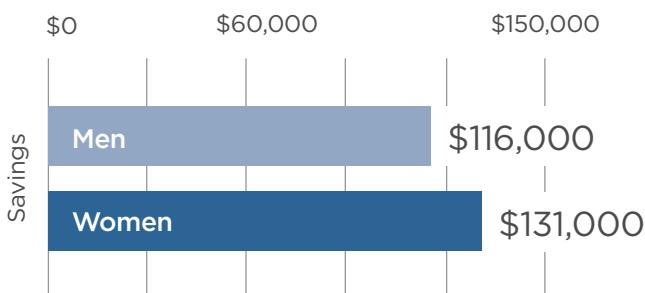
Most of America's workers won't discuss possible future health care costs with a family member or a spouse because they feel the topic is too personal or will burden others. Avoidance is certainly a natural reaction to challenging situations. However, avoiding the health care discussion only minimizes that uncomfortable situation today. It could leave much more difficult situations to be dealt with tomorrow.

The top three reasons these conversations are not happening:
1. Concerns that family members will worry
2. Beliefs that the subject was too personal
3. Lack of knowledge about health care costs in general

Ironically, not having the conversation can mean anything from a large gap in costs to cover or the sudden burden upon a family member to help provide care—burdens that could otherwise be minimized with proper planning.

Findings from a 2014 Employee Benefit Research Institute (EBRI) study reveal that both men and women need financial savings of over \$100,000 for health care costs in retirement—a threshold that requires know-how and purposeful planning for the majority of pre-retirees. And, while the majority of pre-retirees expect to rely on Medicare, few understand their coverage.

How much do America's workers need to save for a 90% chance of covering medical expenses?²



Advisors are needed to bring clarity to consumer misconceptions.

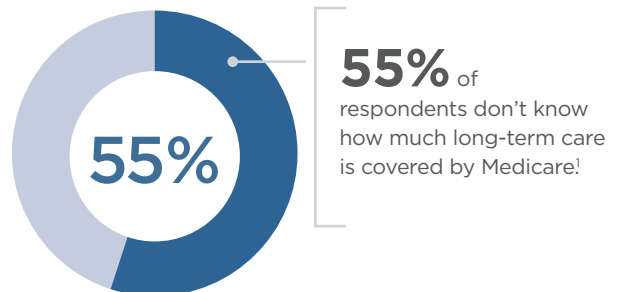
Misconceptions about what Medicare covers and does not cover abound in today's market. What consumers don't know can hurt them and often eat into projected retirement income. With the right tools in place, financial advisors can help clients understand the gaps that exist and identify potential solutions to fill the voids.

Many health care expenses are not covered by Medicare.

While most NRI survey participants enrolled in Medicare believed it would cover most health care costs, the harsh reality is **many expenses are not covered**. In 2014, those 65 and older spent \$5,439 out-of-pocket for medical expenses.³ Complexities in the benefits and being unaware or unprepared for the disparities can equate to a big sticker shock when it comes to the out-of-pocket expenses not covered by Medicare.

The term “Long-term care” is often misunderstood in Medicare coverage.

Many workers also misinterpret what “long-term care” really means in Medicare literature, in terms of a covered benefit. Most aging adults think of long-term care as care and assistance with daily living activities, or what is actually referred to as **custodial care** received in a nursing home or other long-term care facility. Simply put, Medicare does not cover most long-term care needs.



1. The Nationwide Retirement Institute's 4th Annual Health Care and Long-Term Care Survey conducted by Harris Poll.
2. Fronstin, P. *Amount of Savings Needed for Health Expenses for People Eligible for Medicare: Good News Not So Rare Anymore*. Notes. Employee Benefit Research Institute. October 2014. 35(10). www.ebri.org/pdf/notespdf/notes.oct14.final.retsvgs.pdf. Accessed February 17, 2016.
3. Consumer Expenditure Survey 2014, Bureau of Labor Statistics.

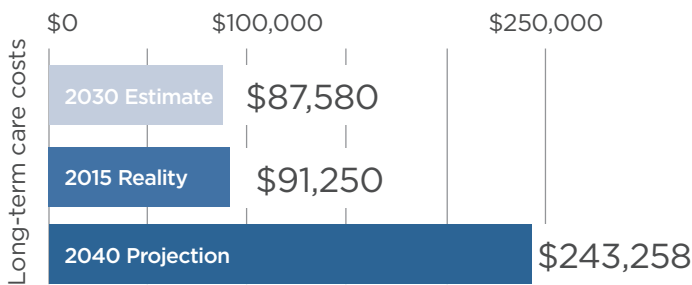
However, more than one-third of our survey group believe Medicare covers at least some long-term care costs, when in truth, the only long-term care coverage provided is for finite medical stays, such as post-operation skilled nursing rehabilitation. If clients make assumptions that all long-term care is treated the same under Medicare, they may not feel the urgency to plan to fund that custodial care they may need one day.

Most workers wish they understood Medicare better.

Most U.S. adults age 50 and over wish they understood Medicare benefits better, especially since the majority are not confident in their ability to pay for health care costs beyond what Medicare covers.

Many pre-retirees are simply unaware of how much they need to save for these costs but recognize that next to housing, health care will be their biggest expense in retirement. Those who have attempted to estimate costs most often drastically underestimated the expenditure. This can wreak havoc on retirement savings. After out-of-pocket health care costs, there are still long-term care needs that many are not sure how to plan for as well. Again, Medicare does not cover these costs in most cases, and most retirees underestimate what that gap could look like and how to plan for it.

Most of America’s workers underestimate how much long-term care will cost.⁴



Older adults estimated nursing home care to cost **\$87,580** annually in 2030.

In reality, nursing home costs in 2015 are **\$91,250**. By 2040 they are projected to be **\$243,258**.

There’s a clear need for professional guidance.

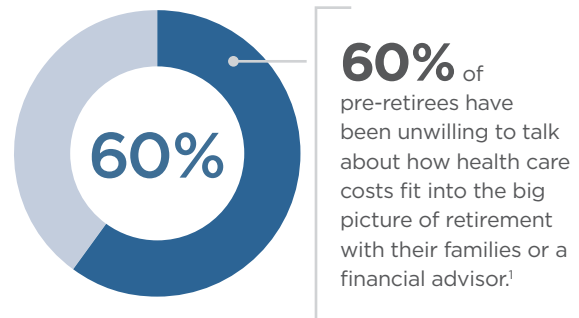
Even without a policy or clear plan forward, most pre-retirees have preferences about how they would like to be cared for when independent living is no longer an option. Similar to the disparity that exists between estimations and actual long-term care costs, a notable gap also exists when it comes to long-term care preferences and perceived reality.

3/4 of survey respondents would prefer to receive long-term care in their home.
1/3 do not believe this goal is possible.¹

Planning for health care costs plays a critical role in whether America’s workers will reach their retirement goals.

Communicating clear goals can help families get on the same page.

These are hard conversations to have with clients. The majority of adults working toward retirement are concerned they will end up imposing upon their families, yet they are not taking action to properly deal with that fear. That’s why financial advisors are so instrumental in helping clients have the conversation about health care now.



If clients are hesitant to have these discussions with family, it could be easy to reason that it would be even harder to have the conversation with a financial advisor. Actually, it might be easier for these discussions to take place with a trusted third party so that concerns can be expressed without making close family members worry.

1. The Nationwide Retirement Institute’s 4th Annual Health Care and Long-Term Care Survey conducted by Harris Poll.

4. Genworth 2015 Cost of Care Survey. Genworth Financial, Inc. 2015.

The health care cost conversation presents a unique opportunity.

It's time to turn the challenge of planning for health care costs in retirement into an opportunity for advisors and consumers alike. Those advisors with the tools in place for an open and honest discussion about health care in retirement can further cultivate and enhance client relationships.

Starting the conversation is a big step forward.

Financial advisors should consider the delicate nature of the topic and the facts that stakes can run high, opinions vary and emotions run strong when discussing health care in retirement. People often do one of three things when they face complex or difficult discussions⁵:

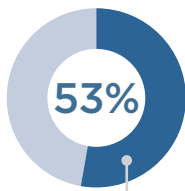
1. **Avoid them**
2. **Face them and handle them poorly**
3. **Face them and handle them well**

Only one of these helps the situation, but it takes a goal-minded effort to create the comfort in taking the first step.

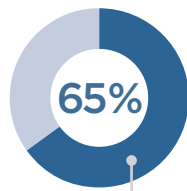
To help clients feel comfortable, informed and prepared when facing the difficult subject of health care, there must be a mutual purpose and respect. This is accomplished by:

- Helping clients understand that the advisor has their best interests and goals in mind.
- Fostering relationships that convince clients that an advisor cares.

Those who have talked to their financial advisor about health care planning in retirement feel confident that they're getting good information.¹



53% say it's very important to talk about health care and long-term care costs.



65% say their advisor is well educated to discuss these topics.

Build trust with a holistic planning approach.

A holistic planning approach can help advisors lead clients to take the right action by further building trust and breaking down barriers. The good news: clients know this is important and feel more confident in their planning when they work with advisors.

Specifically, trust can be built by:

- Framing the benefits of planning in the affirmative. For instance, aging adults gain more control over how to receive long-term care and decisions are made so family members know what's coming.
- Talking in big picture goals rather than in dollars first. For instance, begin with addressing how aging adults can stay in their homes longer.
- Sharing tools that can fill gaps with several options rather than one.

The ultimate goal of talks like these is to create a healthy climate and a clear understanding between parties. Financial advisors should always keep at the forefront the real purpose: getting the client to take appropriate action.

Health care in retirement—it's time to talk about it.

Helping consumers meet their retirement goals is possible if the right information is available and the proper planning takes place. Financial advisors are in the ideal place to fill current knowledge gaps and help guide the planning for health care costs in retirement.

Guidance is certainly needed—not just in terms of planning but in taking the first steps to get conversations started with clients to uncover options. Utilizing both planning tools and the help of a financial professional can dispel common misconceptions and uncover opportunities to achieve better retirement outcomes.

Address the elephant in the room.

Find out how much health care may cost your clients in retirement with The Nationwide[®] Health Care Cost Assessment Fact Finder:

nationwidefinancial.com/healthcare

1. The Nationwide Retirement Institute's 4th Annual Health Care and Long-Term Care Survey conducted by Harris Poll.

5. Patterson, K., Grenny, J., McMillan, R., Switzler, A. *Crucial Conversations: Tools for Talking When Stakes are High*. New York: McGraw Hill, 2012.

References

- ¹ The Nationwide Retirement Institute®'s 4th Annual Health Care and Long-Term Care Survey conducted by Harris Poll.
- ² Fronstin, P. *Amount of Savings Needed for Health Expenses for People Eligible for Medicare: Good News Not So Rare Anymore*. Notes. Employee Benefit Research Institute. October 2014. 35(10). www.ebri.org/pdf/notespdf/notes.oct14.final.retsvgs.pdf. Accessed February 17, 2016.
- ³ Consumer Expenditure Survey 2014, Bureau of Labor Statistics.
- ⁴ Genworth 2015 Cost of Care Survey. Genworth Financial, Inc. 2015.
- ⁵ Patterson, K., Grenny, J., McMillan, R., Switzler, A. *Crucial Conversations: Tools for Talking When Stakes are High*. New York: McGraw Hill, 2012.



This survey was conducted online by Harris Poll on behalf of The Nationwide Retirement Institute between September 23, 2015 to October 1, 2015, among 1,291 U.S. adults aged 50 or older, of whom 558 identify as pre-retired and having an annual household income of \$150,000 or more ("affluent pre-retirees"). This survey is not based on a probability sample and therefore no estimate of theoretical sampling error can be calculated. This information is general in nature and is not intended to be tax, legal, accounting or other professional advice. The information provided is based on current laws, which are subject to change at any time, and has not been endorsed by any government agency.

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