EDUCATION

Many Americans Unprepared for the Cost of Health Care in Retirement

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The rising cost of health care has been a political hot button issue for years, and Franklin Templeton's 2019 "Retirement Income Strategies and Expectations (RISE)" survey revealed it remains a top concern today. Franklin Templeton Defined Contribution Head of Strategic Accounts Kevin Murphy and Michael Doshier, vice president, Retirement Marketing, offer some highlights from the survey and stress the importance of saving enough to meet future health care needs in retirement.

For many individuals, retirement is a time to look forward to. But for those who aren't adequately prepared, it can come with a lot of stress—particularly if unforeseen medical expenses take a toll.

It is not much of a surprise that, like last year, Franklin Templeton's 2019 Retirement Income Strategies and Expectations (RISE) survey revealed health care issues are the number one retirement-related concern for adults over 65 years old (36%) and running out of money came next (16%).

However, the survey also highlighted how saving early for health care expenses can better position individuals to achieve their retirement goals and examined a variety of perceptions and concerns about retirement saving strategies.

Health-Related Worries Are Top Concern

The RISE survey revealed paying for health expenses in retirement is the top expense concern among Americans (41%) regardless of age, a far greater concern than paying off debt (16%). And while Americans are apparently concerned about paying for health expenses, almost half (48%) of the survey respondents said they didn't know how they would pay for their health care costs in retirement.

In light of these findings, we believe it's imperative to incorporate health care expense planning as part of a holistic retirement savings strategy. Rising health care costs for employers and employees alike have spawned solutions to better equip individuals to manage their health-related expenses. One strategy which can complement long-term retirement savings strategies is a Health Savings Account (HSA).

HSAs allow individuals covered by high-deductible health plans (HDHPs) to receive tax-preferred treatment of money they have saved for medical expenses. Along with traditional health care plans, HDHPs can provide greater upfront savings to the employer than traditional plans, and significantly lower premiums for individuals. As the name implies, an HDHP has a higher deductible than a traditional health insurance plan.

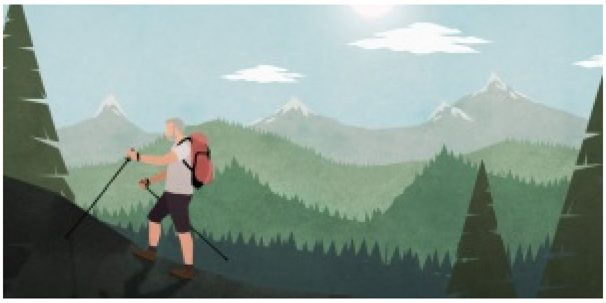
HSAs associated with these plans can offer many potential benefits in terms of retirement savings, too. In fact, 75% of RISE survey respondents who said they have an HDHP are using an HSA to save for medical expenses in retirement. Further, 75% of respondents with HSAs indicated they know how they will pay for retirement medical expenses, compared to 36% of respondents who are not using an HSA to save for medical expenses in retirement.

However, only 31% of those surveyed currently have access to an HDHP, though and the trend is moving toward more employers offering an HDHP as an option within their benefits package.[1]

Even if you don't have access to this option, we think it's nonetheless critical to think about how potential health care issues will impact your retirement—and whether you've saved enough. Medicare does not cover all costs—we've all heard stories of seniors cutting back on or not taking their prescribed medications because they are too expensive.

According to the US Department of Health and Human Services data from 1996-2016, average annual health care expenses for those 65 and older were $11,316, more than double that of people aged 18-64.[2] There's reason to believe this number could be even higher today. In 2018, health care costs outpaced the overall rate of inflation in the US economy, and recent data from the US Bureau of Labor Statistics show medical care services likewise outpacing overall inflation on a year-over-year basis for the first three months of 2019.[3]

Certainly, the need for advanced care, including assisted living or memory care, can cause an even larger financial strain, as living facilities and/or specialized care can cost thousands of dollars per month.



More Individuals Are Leaning towards Goals-Based Investing

The RISE survey findings this year highlighted a shift in the mindset of Americans when it comes to how they are investing. The survey revealed the desire to "achieve a goal" especially resonates with pre-retirees.

The drive towards goals-based investing shows that individuals are aligning their investment strategies with various goals they have for their savings. That is why we think it's important to help investors think about both their future retirement-related liabilities—including health-related expenses—and their goals for living a rich life during retirement, then determine the best strategy for preparing for each specific expense bucket.

As retirement savings is such a significant goal for many, it is crucial for individuals to determine what tools and vehicles they're using and what their risk tolerance is in order to achieve their desired outcomes. Of equal importance is engaging with a financial advisor on a regular basis and making adjustments to their portfolio aligned with achieving desired outcomes.

Many Americans Still Aren't Saving Enough

While saving for retirement is a top goal for many individuals, 66% of pre-retirees in our RISE survey admitted to being behind. Additionally, fewer than half (46%) of respondents indicated they have a strategy in place to generate retirement income that could last 30 years or more. Likewise, 46% of respondents are worried about managing their retirement income to meet their retirement expenses.

Additional RISE Survey Highlights:

- Americans remain confident in Social Security; 71% believe they will receive benefits. In fact, almost half (45%) are confident that they know how much of their retirement income will be replaced by Social

Security.
- Only 33% of respondents work with a financial advisor, yet 60% of respondents consider a financial advisor important to retirement planning.
- More than half of respondents (54%) do not have a plan in place in the event they are no longer able to manage their own finances.
- Sixty percent of respondents are willing to pay for insurance that would guarantee a stream of income for as long as one lives or protects one's retirement assets from dropping below a certain threshold.

Additional survey information and retirement planning resources can be found on Franklin Templeton's website. For financial advisors who are interested in resources and business development ideas to support their HSA practice, please contact us at (800) 342-5236.

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Survey Methodology

The Franklin Templeton Retirement Income Strategies and Expectations (RISE) survey was conducted online among a sample of 2,002 adults comprising 1,000 men and 1,002 women 18 years of age or older. The survey was administered between January 17 and 28, 2019, by Engine's Online CARAVAN®, which is not affiliated with Franklin Templeton. Data is weighted to gender, age, geographic region, education and race. The custom-designed weighting program assigns a weighting factor to the data based on current population statistics from the U.S. Census Bureau.

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1. Source: Fronstin, Paul, Ph. D. Employee Benefit Research Institute Issue Brief, “Trends in Health Savings Account Balances, Contributions, Distributions, and Investments, 2011-2016: Statistics from the EBRI HAS Database.” July 11, 2017, No. 434. Source: Mercer’s National Survey of Employer-Sponsored Health Plans http://www.mercer.com/newsroom/national-survey-of-employer-sponsored-health-plans-2016.html.

2. Source: US Department of Health and Human Services Agency for Healthcare Research and Quality, “Mean expenditure per person by age groups,” data from 1996-2016.

3. Sources: Bloomberg, Centers for Medicare and Medicaid Services, US Bureau of Labor Statistics, unadjusted 12 months ended March 2019.

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