



**MANAGING YOUR
COSTS IN RETIREMENT**

HEALTH CARE

Life insurance issued by Pruco Life Insurance Company and by Pruco Life Insurance Company of New Jersey.

Investment and Insurance Products:

Not Insured by FDIC, NCUSIF, or Any Federal Government Agency.
May Lose Value. Not a Deposit of or Guaranteed by Any Bank, Credit
Union, Bank Affiliate, or Credit Union Affiliate.

Have you accounted for health care in your retirement plan?

Health care is one of the largest expenses you'll need to plan for during retirement. Yet many people don't take the time to consider these expenses when putting together a retirement plan. That could be because of a common misconception that Medicare will cover all your health care expenses. Also, with life expectancies on the rise, you'll most likely need to account for health care expenses for a longer period of time.



Did you know?

- Health care is the second-largest expense in retirement¹
- Medicare is not free
- Medicare does not cover all of your health expenses

The amount you'll spend on health care during your retirement depends on a number of factors, including how healthy you are, how long you'll live, and the level of health care coverage you want. When you decide to retire can make a significant difference to your health care costs.

How much money will I need?

Since Medicare is the primary source of health care coverage for most retirees, a good place to start planning is understanding what Medicare actually covers.

For example, Medicare does not cover hearing aids, eye exams related to prescribing glasses, acupuncture, long-term care, or most dental care.

A financial professional can:

- Help you estimate your future health care costs and incorporate them into your overall retirement income plan.
- Show you strategies that can generate supplemental income to help you address your health care costs in retirement.

MEDICARE
ONLY COVERS
APPROXIMATELY

61%

of health care
expenses.³

Married couple retiring at age **65**

Average health care costs
\$295,000²

¹ Bureau of Labor Statistics, Consumer Expenditure Survey 2019; Table 1300 Mean annual expenditures by age; Age 75+.

² Fidelity Benefits Consulting estimate, 2020. Healthcare and nursing home costs may vary by state.

³ EBRI Issue Brief No. 506; "A Bit of Good News During the Pandemic: *Savings Medicare Beneficiaries Need for Health Expenses Decrease in 2020*"; May 28, 2020

How does Medicare work?

Taking time now to learn about your Medicare options can help you choose the plan that is best for you. You can choose from two Medicare approaches: **unbundled** or **bundled**.



The unbundled approach to Medicare

Also referred to as Original Medicare, the unbundled approach allows an individual to purchase Medicare options separately. Sixty percent of Medicare recipients choose this approach.¹

UNBUNDLED – ORIGINAL MEDICARE

Part A: Hospital Insurance

Part B: Medical Insurance

Part D: Prescription Drug Coverage

Medigap: Fills gaps of coverage for Parts A, B, and D (deductibles, copayments, coinsurance)

The ABCs of Medicare

MEDICARE PART A: HOSPITAL INSURANCE

Provides hospital coverage and limited skilled nursing facility coverage.

Part A enrollment	<p>You'll get Part A automatically if</p> <ul style="list-style-type: none"> You reach age 65 and are already receiving benefits from Social Security You are under age 65, have a disability, and have been receiving Social Security disability benefits for at least 24 months <p>If you are not automatically enrolled, you can apply in the seven-month period beginning three months before the month of your 65th birthday and ending three months after.</p>
Part A monthly premium	<p>You won't pay a monthly premium for Part A if</p> <ul style="list-style-type: none"> You are receiving or are eligible to receive Social Security benefits (including spousal and survivor benefits) You or your spouse has Medicare-covered government employment <p>Otherwise, your cost for Part A will be based upon your Social Security eligibility and the number of quarters you paid into the system.</p>
Part A hospital inpatient deductible and coinsurance	<p>You pay</p> <ul style="list-style-type: none"> \$1,484 deductible for each benefit period Days 1 – 60: \$0 per hospital stay deductible Days 61 – 90: \$371 per day coinsurance Days 91 – 150: \$742 per "lifetime reserve day" Days 151+: All costs paid by patient
Part A skilled nursing facility deductible and coverage	<p>Beyond lifetime reserve days, you pay all costs</p> <ul style="list-style-type: none"> Days 1 – 20: \$0 for each benefit period Days 21 – 100: \$185.50 coinsurance per day Day 101 and beyond: You pay all costs

Sources: U.S. Dept. of Health and Human Services, Notice CMS-8074-N, Nov. 6, 2020; Centers for Medicare & Medicaid Services, Medicare Coverage of Skilled Nursing Facility Care, CMS Product No. 10153, July 2019.

¹ Medicare Enrollment Dashboard, Hospital/Medical Enrollment October 2020; accessed January 2021

MEDICARE PART B: MEDICAL INSURANCE

Provides non-hospital medical coverage, including doctor visits and outpatient care. Does not include routine vision, dental, foot care, and hearing aids.

Part B enrollment	<p>You'll get Part B automatically if</p> <ul style="list-style-type: none"> You reach age 65 and are already getting benefits from Social Security You are under 65 and have a disability and have been receiving Social Security disability benefits for at least 24 months <p>If you are not automatically enrolled, you can apply during the months surrounding your 65th birthday; i.e., the 3 months before, the month of, and the 3 months following your birthday</p>		
Part B monthly premium – based on Modified Adjusted Gross Income (MAGI)	2021 yearly income by filing status		2021 monthly Part B premium is¹
	File Individual Tax Return	File Joint Tax Return	
	\$88,000 or less	\$176,000 or less	\$148.50
	\$88,001 - \$111,000	\$176,001 - \$222,000	\$207.90
	\$111,001 - \$138,000	\$222,001 - \$276,000	\$297.00
	\$138,001 - \$165,000	\$276,001 - \$330,000	\$386.10
	\$165,001 - \$500,000	\$330,001 - \$750,000	\$475.20
	\$500,001 or more	\$750,001 or more	\$504.90
Part B deductible	\$203 per year		
Additional costs	You are responsible for a 20% coinsurance on doctor's services and outpatient care and any amounts over the Medicare allowed charge		

¹ U.S. Dept. of Health and Human Services, Notice CMS-8076-N, Nov. 6, 2020.

MEDICARE PART D: PRESCRIPTION DRUG COVERAGE

To get Medicare Part D, you must be enrolled in Parts A and/or B, and you must join a plan run by an insurance company or other private company approved by Medicare. Each plan can vary in cost and drug coverage.

Part D enrollment	Initial enrollment is held during the 7-month period surrounding your 65th birthday: the 3 months before, the month of, and the 3 months following. If you miss enrolling during this time period, you may have to wait until annual open enrollment, which is October 15 – December 7.				
Premiums	You are responsible for a premium that varies by plan and income. 2020 Estimated Average Monthly Part D Premium \$41**				
Part D coverage		Prescription drug costs	What you pay	What Part D pays	Your out-of-pocket expenses
	Annual deductible	\$0 – \$445	100%	0%	\$445
	Initial coverage phase	\$445 - \$4,130	25%	75%	\$921.25
	Donut Hole	\$4,131 - \$9,313.75***	100%	0%	\$5,183.75†
	Catastrophic	\$10,048.39***	5%	95%	\$5,186.75†

Source: CMS Announcement of CY 2020 Medicare Advantage Capitation Rates and Medicare Advantage and Part D Payment Policies and Final Call Letter, April 6, 2020.

** Source: Kaiser Family Foundation; "Medicare Part D: A First Look at Prescription Drug Plans in 2021; October 29, 2020.

*** Participants qualifying for Low Income Subsidies (LIS) attain out-of-pocket threshold at \$9,313.75 of drug spending; participants who do not qualify for the LIS \$10,048.39.

† Total out-of-pocket costs expenses having reached Catastrophic expense levels equals \$6,550, or \$445 + \$921.25 + \$5,183.75).



Optional Medigap Insurance

Medicare supplement (Medigap) insurance is sold by private companies to provide reimbursement for out-of-pocket medical costs. It helps “fill in the gaps” of Parts A and B by paying some of the health care costs that Medicare doesn’t cover, such as copayments, extended hospitalization, coinsurance, and deductibles.

Medigap enrollment	<p>Enrollment: 6-month automatic enrollment period starts the first day of the month you are age 65 or older and are enrolled in Part B.</p> <ul style="list-style-type: none"> During this period, you can’t be turned down for pre-existing conditions – If you miss this enrollment period, you could pay more or be denied coverage for pre-existing conditions (the Affordable Care Act ban on denying coverage does not apply to Medicare)
Medigap coverage and information	<ul style="list-style-type: none"> Flexibility to see any doctor that accepts Medicare 10 standard plans offering different coverage, and plans vary depending on state Cost of coverage will vary by plan and state. The average monthly premium is \$251.50* Some Medigap policies offer coverage for services that Original Medicare doesn’t cover, like medical care when you travel outside the U.S. Medigap policies generally don’t cover long-term care, vision or dental care, hearing aids, eyeglasses, or private-duty nursing Any standardized Medigap policy is guaranteed renewable even if you have health problems. This means the insurance company can’t cancel your Medigap policy as long as you pay the premium. You cannot have a Medigap policy at the same time you have a Part C Medicare Advantage Plan

*Median cost for Plan G male age 65 non-smoker in Overland Park KS (66013); Medicare.gov Medicare Plan Finder; <https://www.medicare.gov/find-a-plan/questions/medigap-home.aspx> November 2020.

The bundled approach to Medicare

Also referred to as Medicare Advantage, the bundled approach allows an individual to purchase a health insurance plan from a private provider that covers Parts A, B, and often D.

**BUNDLED – PART C
MEDICARE ADVANTAGE**

An All-In-One Plan

– Includes Parts A and B

– Often includes Part D

PART C: MEDICARE ADVANTAGE Combines parts of Medicare A, B, and D

- It’s a Medicare health plan offered through private insurers that contract with Medicare to provide you with all of your Parts A and B benefits
- Available in three formats: managed care plans (HMOs and PPOs), private fee-for-service plans, or medical savings accounts
- Private insurers may be able to offer lower premiums than Original Medicare, but can limit you to in-network providers

Medicare Advantage enrollment	Initial enrollment is held during the 7-month period surrounding your 65th birthday: the 3 months before, the month of, and the 3 months following. Open enrollment: October 15 – December 7
Medicare Advantage coverage and information	<ul style="list-style-type: none"> ■ Hearing, dental, and vision may be covered ■ Most offer prescription drug coverage ■ Most plans require that you use in-network doctors, hospitals, and other providers or costs may increase for out-of-network providers ■ Each plan can charge different out-of-pocket costs, but annual out-of-pocket expenses cannot exceed \$7,550** ■ You usually pay one monthly premium to the plan in addition to your Part B premium and copayments. The average monthly premium is \$21***

**CMS, “Final Contract Year 2021 Part C Benefits Review and Evaluation”; Table 3; April 8, 2020.

***Kaiser Family Foundation; “Medicare Advantage 2021 Spotlight: First Look.; Biniek, Freed, Damico, & Neuman; October 29, 2020.

Here is an average cost example using the unbundled approach. This example shows Medicare coverage for a married couple with Modified Adjusted Gross Income (MAGI) of less than \$176,000 per year.

Coverage	Average annual cost
Part A: Hospital Insurance: Provides hospital coverage and limited skilled nursing facility coverage	\$0 Premium
Part B: Medical Insurance: Provides non-hospital medical coverage; for example, doctor’s visits	\$1,782 Premium
Part D: Prescription Drug Coverage: Medicare drug coverage	\$492 Premium
Medigap ² : Optional Medicare supplement insurance that’s sold by private companies to provide reimbursement for some out-of-pocket medical costs (Does not cover vision, hearing, or dental)	\$3,018 Premium
Out-of-pocket expenses (deductibles, co-pays, and coinsurance not covered by Medigap, plus dental, vision, hearing expenses) ³	\$2,152 Premium
Total per person	\$7,444 Premium

¹ Kaiser Family Foundation “Medicare Part D: A First Look at Prescription Drug Plans in 2021” October 29, 2020.

² Median cost for Plan G male age 65 non-smoker in Overland Park KS (66013); Medicare.gov Medicare Plan Finder; <https://www.medicare.gov/find-a-plan/questions/medigap-home.aspx> November 2020.

³ Kaiser Family Foundation; *How Much Do Medicare Beneficiaries Spend Out of Pocket on Health Care?*; November 2019; Excludes expenses for long-term care.

How life insurance can help

Life insurance coverage protects the people you love when you die. But some policies may also offer benefits that can help you pay health care expenses while you're still living:

- **Chronic or terminal illness rider.** An optional rider that will allow you to access the death benefit if you become chronically or terminally ill. How you use the money is up to you. Such riders will have qualifying terms and conditions and are typically available for an extra cost.
- **Access to cash value.** If your policy offers the potential for cash value accumulation, you may be able to take loans or withdrawals from it to use in any way you choose.

It's important to know that accessing your policy's death benefit will reduce, and may even eliminate, the death benefit for the policy's beneficiaries. Outstanding loans and withdrawals will reduce policy cash values and the death benefit, and may have tax consequences.

Make a plan to pay for health care in retirement

Working with a financial professional, you can determine how prepared you are to pay for health care during retirement. A financial professional can suggest strategies, including those that use life insurance. If you start planning today, you can face the future with more confidence.

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