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Do you have a plan to cover healthcare expenses in retirement?

Annuities can help

When drawing up a retirement plan, it's important to include healthcare costs in your budget. Consider using the income from an annuity to help cover those expenses.

The total amount a 65-year-old couple retiring in 2021 can expect to spend on healthcare over their life expectancies could fall anywhere between $156,000 and $1 million, according to Health-View Services, a leader in healthcare cost projections.[1]

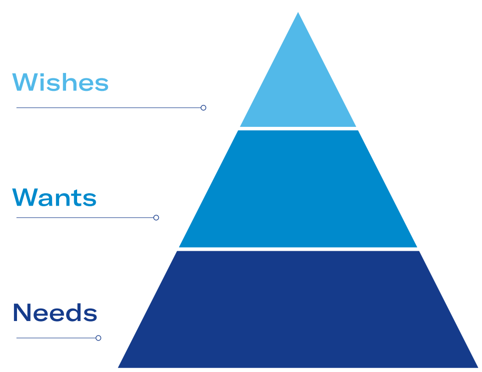
"It sounds daunting," says Michael R. Harris, a senior educational advisor with the Alliance for Lifetime Income who holds CFP®, CLU® and CHFC® designations. "What you really have to have is an income stream to help you pay for your bills on an annual basis, not a lifetime basis," Harris says. Let's look at how annuities can play a role in generating that income.

The retirement income pyramid

One way to look at how much income you'll need in retirement is to categorize your anticipated expenses into needs, wants, and wishes. What goes into the needs category? Shelter, food, clothing, transportation — and healthcare. That's the base of the pyramid, the solid footing.

> "What you really have to have is an income stream to pay your bills on an annual basis, not a lifetime basis."

Michael Harris
Senior Education Advisor, Alliance



Shelter, food, clothing, transportation and healthcare form the base of the pyramid.

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Wants, wishes and calculating needs

Wants might include family vacations and a boat or RV purchase. Wishes might include paying for grandchildren's education.

The key is calculating your needs and coming up with a plan to generate income to meet those needs.

It's a given that you're going to have out-of-pocket healthcare costs in retirement: Medicare premiums, Medicare surcharges if your annual income hits a certain threshold (for 2021: above $88,000 for individuals, $176,000 for couples), deductibles, co-pays and co-insurance, even vision and dental and hearing expenses. In fact, healthcare is one of the leading expenses retirees face.[2]

> "Paying for healthcare isn't a wish or a want, it's a need."
>
> **Michael Harris**
> Senior Education Advisor, Alliance

An annuity can help provide stable income for the need-based piece of the retirement income equation.

Annuities offer guaranteed protection

Social Security and a workplace pension — if you have one — both provide stable annual income. An annuity can also generate an income stream that's protected and predictable so you don't have to worry about markets going up and down or interest rates going up and down. Instead, an annuity can provide a steady flow of income no matter what markets and interest rates do.

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With an annuity, a couple can make sure there's money earmarked for healthcare spending. On average, they'd likely spend less in the early years of retirement, allowing them to spend that on wants or wishes, or better yet to save it in a healthcare bucket for future healthcare needs. As healthcare expenses grow with age, there's this bucket of saved income to tap plus the current income stream, Harris says. What if they never need to tap into the excess income that's saved up? It's there for loved ones or charity.

A financial professional can help you estimate your expected retirement healthcare costs. Each individual and couple should assess their longevity risk using an actuarial longevity calculator.

According to HealthView Services, individuals with chronic illness will spend more annually on healthcare but less throughout retirement due to a shorter lifespan. Women should plan to fund their own expenses for a longer time than men, based on the fact that they live longer — 5 more years, on average, according to a 2018 report by the National Bureau of Economic Research. While a married couple might have been spared from Medicare surcharges for Medicare Part B and Part D, widows — and widowers — might face surcharges at the individual rate.

Once basic healthcare expenses are covered, think about daily living needs and wants beyond healthcare. Keep in mind that when one person gets sick, there are likely additional expenses that come into play, costs associated with the daily activities like shopping, mowing the lawn, or driving that each person contributed to the household beforehand. These additional expenses move into the needs category of the income hierarchy. The same would be true for an unexpected, one-time serious medical event and the associated expenses. A second annuity could help with that side of the equation to provide more guaranteed stable income to cover all of your retirement needs.

Draw up a financial plan

Retirement income planning is a key component of a well-thought-out retirement plan. When you start working with a financial professional to draw up a plan, your age, job status and marital status — as well as your health — will all factor into the plan design. You might need income from day one. Or it might make sense to buy a deferred annuity and let it grow, and then when something happens, start the income. Depending on their overall savings and financial needs, a couple could buy two annuities. At the time when one spouse gets sick, they'd turn on the income from one annuity to help meet costs.

Conclusion: Don't overlook healthcare costs

Annuities can guarantee an income stream that can be used to help offset your healthcare costs in retirement. There are also annuities that can protect and grow your wealth to help you better meet this risk.

When you're calculating your retirement income needs and designing a financial plan, make sure you include healthcare as a key component.

Contact your financial professional or visit equitable.com.

1 2021 Retirement Healthcare Costs Data Report. HealthView Services, 2021.

2 Part B costs. Medicare.gov. **medicare.gov/yourmedicare-costs/part-b-costs.**

Annuities are long-term investments designed for retirement purposes. The value of variable annuities is subject to market risk and will fluctuate. Product guarantees are subject to the claims-paying ability of the issuing insurance company. Earnings, when withdrawn, are subject to federal and/or state income tax, including a 10% tax penalty for withdrawals before age 59½. Some income guarantees offered with annuities take the form of optional riders and carry charges in addition to the fees and charges associated with annuity products.

There is no guarantee that any investment will achieve its objectives, generate positive returns or avoid losses. Investments in annuity contracts may not be suitable for all investors.

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