Retirement Planning

A GUIDEBOOK FOR FUTURE RETIREES

MANNING & NAPIER

Independent Perspective | Real-World Solutions

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As you review the book, watch for **Action Items** giving you the specific steps you and your loved ones can take to begin your retirement planning process.

At the back of the book, you will find a worksheet that can facilitate a consultation with a financial advisor.

The future is unknowable. Yet, a fundamental part of retirement planning is attempting to mitigate future risks about which we know very little: how long we might live, interest rate changes, tax changes, and reductions in Social Security and Medicare. No one knows when or how these events will occur. Yet, planning can help mitigate some risks that are relatively certain, and can provide you with a foundation for the future.

Test Your Knowledge Of Inflation

One certain risk that retirees face is inflation – the risk that their dollars will be worth less in the future than they are today.

1. **Question**
   Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow: more than $102, exactly $102, or less than $102?

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2. **Question**
   Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, would you be able to buy more than, exactly the same as, or less than today with the money in this account?

1. Answer
More than $102

2. Answer
Less

Prices Continue To Rise Over Time

Will Your Investments Keep Up With Rising Costs?

	Loaf of Bread	Dinner for Two	New Car
1990	$1.56	$31.13	$15,566
2015	$3.00	$60.00	$30,000
2020	$3.48	$69.56	$34,778
2040	$6.28	$125.63	$62,813

Imagine living in 2015 on a budget consisting of dollars from 1990. A gallon of milk that cost $0.99 cents in 1990 would cost $1.90 in 2015. A gadget that cost $100 in 1990 would cost $193 today. A nice restaurant meal in 1990 might translate into a fast-food meal twenty years later.

For illustrative purposes only.
Inflation = Consumer Price Index 1990 – 2015. Data for 2020 and 2040 assumes 3% annual inflation rate on 2015 figure. Analysis by Manning & Napier.

How Inflation Affects You

Inflation can alter the economic landscape in dramatic ways. With planning, your retirement assets may gain a level of protection against the effects of inflation. If you do nothing, inflation may derail your retirement plans far in the future, when you will have less flexibility to make the necessary adjustments.

A financial advisor can assist in modeling how inflation might affect your savings and spending over the years of your retirement, and make recommendations regarding investment options that can help mitigate inflation risk.

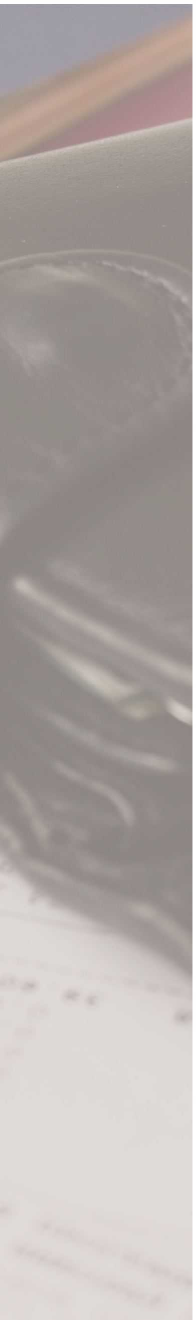
The Persistent & Unpredictable Nature of Inflation

1970	5.49%	1990	6.11%
1971	3.36%	1991	3.06%
1972	3.41%	1992	2.90%
1973	8.80%	1993	2.75%
1974	12.20%	1994	2.67%
1975	7.01%	1995	2.54%
1976	4.81%	1996	3.32%
1977	6.77%	1997	1.70%
1978	9.03%	1998	1.61%
1979	13.31%	1999	2.68%
1970s Average	**7.42%**	**1990s Average**	**2.94%**

Action Item: Review your investments and rebalance as necessary.

Inflation = Consumer Price Index.


Overtime
Pay
Deductions
Other
Checking 1
Net Pay
Your federal taxable wages this period are



Social Security

An Inflation-Protected Asset

Most people will have to rely on their own savings in a “defined contribution” retirement plan such as a 401(k) to fund their retirement. Although employers may contribute to these accounts in the form of matching contributions or profit-sharing, the ultimate risk of running out of money in retirement is carried by you, the employee. You are responsible for making your retirement assets last as long as you live.

On the other hand, almost everyone has access to one benefit that will last as long as they live: Social Security. Social Security is designed to pay benefits from retirement until death, similar to a traditional pension plan. Social Security payments are adjusted every year for inflation (this is called the COLA or cost-of-living adjustment). The purpose of the COLA is to ensure that the purchasing power of Social Security benefits is not eroded by inflation.

Your Greatest Asset?

According to the Government Accounting Office, Social Security provides most of the retirement income for about half of households aged 65 and older. Choices regarding when to claim benefits, and in what form, can dramatically affect retirement security.

For women, understanding Social Security benefits is particularly important because they tend to live longer than men. A woman's financial interests are served by learning how to maximize her Social Security benefits to ensure the highest possible inflation-protected income in old age. For women who claim benefits on their own record and on their spouse's record, this may involve deferring receipt of their own benefits for a period of time.

A significant amount of a woman's monthly income in old age is likely to be Social Security. Decisions made at the time of retirement can heavily influence the amount of benefits she receives later in life.

Did You Know?
The divorce rate among adults ages 50 and older doubled between 1990 and 2010. Roughly one in four divorces in 2010 occurred to persons ages 50 and older. Women initiate over two-thirds of divorce proceedings in couples over 50.

Did You Know?
52 percent of women between the ages of 75 and 84 are widowed, compared to 17 percent of men, according to the Society of Actuaries. Among those aged 65 to 74, 26 percent of women are widowed, compared to 8 percent of men.

Did You Know?
70 percent of women age 75 or older are widowed, divorced, or never married.

Questions & Answers About Social Security

How is my Social Security benefit calculated?
The amount of your benefit depends on how long you worked, your salary level, and the age at which you claim benefits. Monthly benefit amounts can differ substantially based on your retirement age. You can get lower monthly payments for a longer period of time or higher monthly payments over a shorter period of time. The amount you receive when you first get benefits sets the base for the amount you will receive for the rest of your life, though you do receive annual cost-of-living adjustments and, depending on your work history, may receive higher benefits if you continue to work.

Action Item:
Get a copy of your earnings record from Social Security and calculate your estimated benefits.

www.ssa.gov

Sources: U.S. Government Accountability Office, National Center for Family & Marriage Research, American Law and Economics Association, Bloomberg, American Association for Long-Term Care Insurance.

What is my "full retirement age"?

A decision regarding when to claim benefits depends on a number of factors, such as your current cash needs, your health and family longevity, whether you plan to work in retirement, whether you have other retirement income sources, your anticipated future financial needs and obligations, and, of course, the amount of your future Social Security benefit.

"Full retirement age" is the age at which a person may first become entitled to full or unreduced retirement benefits. You will want to choose a retirement age based on your circumstances so you will have sufficient income when you need it. The chart below lists age 62 reduction amounts and includes examples based on an estimated monthly benefit of $1,000 at full retirement age.

FULL RETIREMENT & AGE 62 BENEFIT BY YEAR OF BIRTH

			At Age 62[3]	
Year of Birth[1]	Full (normal) Retirement Age	Months between age 62 and full retirement age[2]	A $1,000 retirement benefit would be reduced to	A $500 spouse's benefit would be reduced to
1937 or earlier	65	36	$800 (20.00% reduced)	$375 (25.00% reduced)
1938	65 and 2 months	38	$791 (20.83% reduced)	$370 (25.83% reduced)
1939	65 and 4 months	40	$783 (21.67% reduced)	$366 (26.67% reduced)
1940	65 and 6 months	42	$775 (22.50% reduced)	$362 (27.50% reduced)
1941	65 and 8 months	44	$766 (23.33% reduced)	$358 (28.33 % reduced)
1942	65 and 10 months	46	$758 (24.17% reduced)	$354 (29.17% reduced)
1943-1954	66	48	$750 (25.00% reduced)	$350 (30.00% reduced)
1955	66 and 2 months	50	$741 (25.83% reduced)	$345 (30.83% reduced)
1956	66 and 4 months	52	$733 (26.67% reduced)	$341 (31.67% reduced)
1957	66 and 6 months	54	$725 (27.50% reduced)	$337 (32.50% reduced)
1958	66 and 8 months	56	$716 (28.33% reduced)	$333 (33.33% reduced)
1959	66 and 10 months	58	$708 (29.17% reduced)	$329 (34.17% reduced)
1960 and later	67	60	$700 (30.00% reduced)	$325 (35.00% reduced)

1. If you were born on January 1st, you should refer to the previous year.
2. If you were born on the 1st of the month, we figure your benefit (and your full retirement age) as if your birthday was in the previous month. If you were born on January 1st, we figure your benefit (and your full retirement age) as if your birthday was in December of the previous year.
3. You must be at least 62 for the entire month to receive benefits.
4. Percentages are approximate due to rounding.
5. The maximum benefit for the spouse is 50% of the benefit the worker would receive at full retirement age. The % reduction for the spouse should be applied after the automatic 50% reduction. Percentages are approximate due to rounding.

Source: Social Security Administration.

DELAYED CLAIMING PERMANENTLY INCREASES MONTHLY BENEFIT

Year of Birth	Yearly Rate of Increase	Monthly Rate of Increase
1933 - 1934	5.5%	11/24 of 1%
1935 - 1936	6.0%	1/2 of 1%
1937 - 1938	6.5%	13/24 of 1%
1939 - 1940	7.0%	7/12 of 1%
1941 - 1942	7.5%	5/8 of 1%
1943 or later	8.0%	2/3 of 1%

Note: If you were born on January 1st, you should refer to the rate of increase for the previous year.
Note: If you decide to delay your retirement, be sure to sign up for just Medicare at age 65. If you do not sign up, in some circumstances your Medicare coverage may be delayed and cost more.

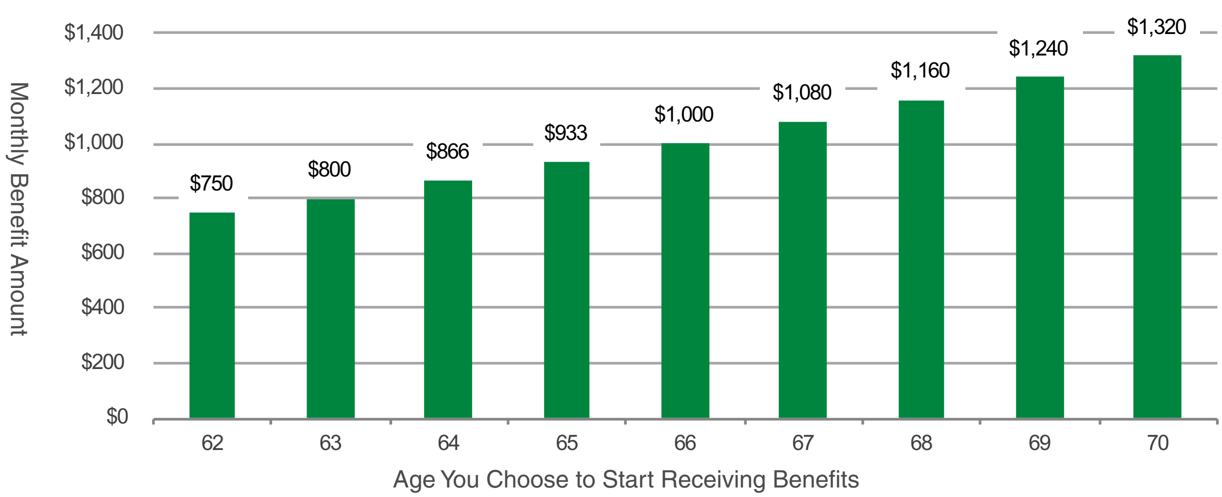
Social Security retirement benefits are increased by a certain percentage (depending on date of birth) if you delay your retirement beyond full retirement age. The benefit increase no longer applies when you reach age 70, even if you continue to delay taking benefits.

What if I Retire Early?

You can collect benefits at any time between age 62 and full retirement age. However, if you start benefits early, your benefits are reduced a fraction of a percent for each month before your full retirement age.

MONTHLY BENEFIT AMOUNTS DIFFER BASED ON THE AGE YOU DECIDE TO START RECEIVING BENEFITS

This example assumes a benefit of $1,000 at a full retirement age of 66



Action Item: Model different Social Security scenarios with different claiming strategies.

Source: Social Security Administration.

Are there different claiming strategies for married couples?
As a result of the Bipartisan Budget Act of 2015, some common claiming strategies for spousal benefits are no longer available. However, spouses, ex-spouses, and widows still have a variety of options to consider. If you are at least 62 years of age and your spouse is receiving retirement or disability benefits, you may qualify for spousal benefits.

If you qualify for benefits as a widow, widower or surviving divorced spouse on another record, you may choose to apply for survivors benefits now and delay your own retirement benefit until later. If you delay receiving your retirement benefit until your full retirement age or later, your retirement benefit may be higher.

NOTE: In order to qualify as an ex-spouse for benefit purposes, you must have been married for 10 or more years.

IMPORTANT: If you're receiving early retirement payout from your employer, keep in mind that some company pensions include a Social Security-equivalent supplement that stops automatically at age 62. The supplement stops because they assume you will apply for your retirement benefits at age 62.

Action Item:
Model claiming strategies with your spouse to see if your benefit will be enhanced. If you are divorced or widowed, review your options as an ex-spouse or surviving spouse.

Source: Social Security Administration.

Does Social Security recognize same-sex marriages?
As of June 26, 2013, Social Security is allowed to recognize same-sex marriages in determining entitlement to Social Security benefits. They can also recognize some non-marital legal same-sex relationships (such as civil unions and domestic partnerships) as marriages for purposes of determining entitlement to Social Security and Medicare benefits.

If you are in a same-sex relationship and have questions about how this affects your Social Security or Medicare benefits, check the Social Security website at www.ssa.gov, or call their customer service number (listed on the website). The issues are evolving and can be complex, and you may need to seek professional advice. Some financial advisers specialize in providing services to same-sex couples.

To find a financial advisor, check out www.prideplanners.com/page-219732

Are my benefits taxed?
About 40 percent of all people receiving Social Security benefits have to pay taxes on those benefits. Generally, individuals with a total income of more than $25,000 will owe taxes on their Social Security benefits. Married couples filing jointly will owe taxes if their joint income is more than $32,000.

No one pays federal income tax on more than 85 percent of his or her Social Security benefits based on Internal Revenue Service (IRS) rules.


$1000
$900
$800
$700
$600
$500
$400
$300
Jun.
Jul.
Aug.
Sep.
Oct.
Nov.
Dec.
100%
10%
35%
29%
$1000
$900
$800
$700
$600
$500
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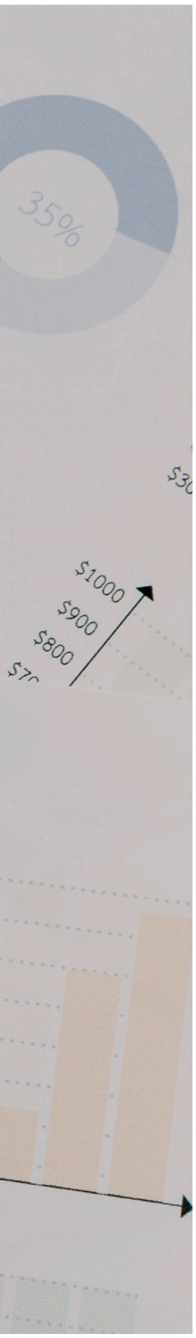

Managing Your Savings

How To Choose The Option That Is Right For You

Upon retirement, you are faced with the critical decision of what to do with the money that you have saved. It is important to fully understand your options, as well as the advantages, disadvantages, and tax consequences of each.

Make sure you understand where all potential sources of retirement income are and how to access them. If you have left 401(k) accounts behind at former employers, reach out to the employers or administrators and confirm balances and investment information. If you have been divorced, you should check your records and see if you have a retirement benefit coming from your ex-spouse's retirement plan. At the end of this book, there is a checklist to assist you in gathering information about your retirement assets.

Did You Know?
On average, U.S. employees change jobs 11 times before retiring. Employees will have to make the decision of what to do with their 401(k) savings each time they make that change.

With this in mind, knowing your IRA and savings options is essential to ensure that you are making the best choice for yourself and for your money.

Source: Financial Industry Regulatory Authority.

What Are Your Options?

Leave The Money In Your Former Employer's Plan
You may leave your savings in your former employer's retirement plan if you meet the plan-specific required amount to do so (e.g., $5,000). If you have less, your former employer may choose to roll your savings over into an IRA that they set up in your name. Leaving your money in the plan can be advantageous if the fees are low and the investments are high-quality.

Roll Over Your Savings To Your New Employer's Retirement Plan
If you change jobs, you may be able to roll your savings into your new employer's retirement plan. This can be advantageous if your new plan has higher-quality investments at a reasonable cost. Discuss this with your new employer to find out what options you may have.

Direct Rollover to a Traditional IRA
An IRA account can be set up to accept the distribution from your employer sponsored retirement plan. The funds are transferred directly into the IRA. This option maintains the tax-deferred status of your retirement savings amount.

Cash Distribution
You can receive your retirement savings amount in a cash lump-sum – this would be in the form of a check made payable directly to you. In this scenario, you have to pay income taxes, payable for the year that you take your distribution. Your employer is required to withhold 20% of your savings, and send it to the IRS as a prepayment of the federal tax that you owe.

Action Items:
Make a list of 401(k) assets. You can use the worksheet at the back of this book.
Evaluate your distribution options and determine what makes the most sense for your situation.

Source: Financial Industry Regulatory Authority.

WHAT TYPES OF ACCOUNTS CAN YOU ROLL OVER* INTO AN IRA?

Permitted Rollovers	Traditional IRA	Roth IRA
401(k)	**Yes**	**Yes**[b]
403(b)	**Yes**	**Yes**[b]
457(b)	**Yes**	**Yes**[b]
Traditional IRA	**Yes**	**Yes**[b]
Roth IRA	No	**Yes**
SEP IRA	**Yes**	**Yes**[b]
SIMPLE	**Yes**[a]	**Yes**[a,b]
Roth 401(k), 403(b), or 457(b)	No	**Yes**

*Rollovers into employer sponsored retirement plans may be subject to further limits and restrictions imposed by the plan document.
[a]Rollovers from SIMPLE plans are permitted only after two years of plan participation.
[b]Rollovers into Roth IRAs and Roth Designated Accounts are permitted only if the converted assets are included as income during the current year.

Digging Deeper Into Distribution & IRA Rollover Options

Option	Advantages
Direct Rollover to Traditional IRA	• You will not lose the contributions that you have made, your employer's contributions, or any other earnings you have accumulated in your 401(k) • Your money will maintain tax-deferred status • Your money is moved directly into an IRA, either electronically or by check, which makes for an easy transaction
Direct Rollover to Roth IRA	• Same as those associated with a Direct Rollover to a Traditional IRA, plus you can withdraw your earnings tax-free once the account has been open for five years and you are 59 1/2 years old • Not subject to minimum withdrawal requirements at the age of 70 1/2 • Earnings will be tax-deferred
Indirect Rollover to IRA	• Tax-deferred as long as you roll over assets in full within 60 days • The rollover is handled yourself by withdrawing the money and depositing it directly into an IRA
Cash Distribution	• Very simple and easy transaction; you will receive a check from your plan administrator • Once you receive the lump-sum of money, you can do what you please with it
Leave the Money in Your Former Employer's Plan	• You will not lose the contributions that you have made, your employer's contributions, or any other earnings you have accumulated in your 401(k) • Your money will maintain tax-deferred status • If your former employer has investment options you would like to maintain, your assets can remain in those options • May provide access to investment options that are not available to individual investors, and the options may have a lower fee than what could be accessed outside of a plan
Roll Over the Distribution to Your New Employer's Plan	• You will not lose the contributions that you have made, your employer's contributions, or any other earnings you have accumulated in your 401(k) • Your money will maintain tax-deferred status • Easier to track your assets' performance • May provide access to investment options that are not available to individual investors, and the options may have a lower fee than what could be accessed outside of a plan

Source: Financial Industry Regulatory Authority.

Disadvantages

- After April 1st of the year following the year you turn 70 1/2, you are required to take minimum withdrawals, which are taxed at the same rate as your income

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- You will have to pay taxes on the rollover amount that you convert
- In the five years following the rollover, you are subject to a 10% IRS early withdrawal penalty for any withdrawals you may make

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- You will face early withdrawal penalties unless you deposit the assets into an IRA within 60 days
- The IRS requires the employer to withhold 20% of your account balance in case you decide to keep the cash (but the withholding will be returned to you when you file your tax return for the year, and if you complete a full rollover within the time limit)

- Employer will withhold 20% of your account balance to prepay the tax that you will owe
- You may incur a 10% early withdrawal penalty on top of the income taxes that you owe
- With taxes owed and withdrawal penalties, up to 50% of your account value may be lost to taxes

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- Some employers might charge higher fees if you are not an active employee
- You may not qualify to stay in your old 401(k) account if the balance is less than specified amount
- You will be limited to the investment options offered by their menu, whereas you have more options with an IRA

- You cannot move your money again until you switch jobs
- Depending on the timing of your job change, you may have to wait for the next enrollment period, or in some cases you may have to wait until you have been an employee for a year

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Who Gets My 401(k) If I Die?

An important part of planning for retirement is reviewing your beneficiary designations to be sure they are in line with your wishes. If you are married, you may not designate someone other than your spouse as your beneficiary unless your spouse signs a waiver. If you have been divorced or widowed, be sure to review your beneficiary designations and make sure they are updated appropriately.

Action Item:
Review your beneficiary designations and update them if appropriate.

How Long Does My Money Need To Last?

Longevity
Because we cannot know when we will die, planning for all contingencies is sometimes necessary. Life insurance, longevity annuities, and other distribution options can all help mitigate the risks to your survivors, if you die early, and to you, if you live long.

Did You Know?
By age 65, U.S. females in average health have a more than 50 percent chance of living to age 85. Males in average health have a 40 percent chance of living to age 85.

The survivor of a 65-year-old couple is more than 70 percent likely to reach age 85.

Source: Forbes.
All investments involve risks, including possible loss of principal.

Annuities
An annuity is a contract between you and an insurance company that is designed to meet retirement and other long-range goals, under which you make a lump-sum payment or series of payments. In return, the insurer agrees to make periodic payments to you beginning immediately or at some future date.

Annuities typically offer tax-deferred growth of earnings and may include a death benefit that will pay your beneficiary a specified minimum amount, such as your total purchase payments. While tax is deferred on earnings growth, when withdrawals are taken from the annuity, gains are taxed at ordinary income rates. If you withdraw your money early from an annuity, you may pay substantial surrender charges to the insurance company, as well as tax penalties.

There are generally three types of annuities — fixed, indexed, and variable. In a fixed annuity, the insurance company agrees to pay you no less than a specified rate of interest during the time that your account is growing. The insurance company also agrees that the periodic payments will be a specified amount per dollar in your account. These periodic payments may last for a definite period, such as 20 years, or an indefinite period, such as your lifetime or the lifetime of you and your spouse.

In an indexed annuity, the insurance company credits you with a return that is based on changes in an index, such as the S&P 500 Composite Stock Price Index. Indexed annuity contracts also provide that the contract value will be no less than a specified minimum, regardless of index performance.

In a variable annuity, you can choose to invest your purchase payments from among a range of different investment options. The rate of return on your purchase payments, and the amount of the periodic payments you eventually receive, will vary depending on the performance of the investment options you have selected.

Variable annuities are securities regulated by the SEC. An indexed annuity may or may not be a security; however, most indexed annuities are not registered with the SEC. Fixed annuities are not securities and are not regulated by the SEC.

Longevity Annuities
A longevity annuity provides protection against outliving your money late in life. This type of annuity requires you to wait until you reach an advanced age to begin receiving a payout. Once the payout begins (usually around age 80), the annuity provides a guaranteed, regular amount of income for the rest of your life.

This type of annuity is usually used as a supplemental retirement investment. You may have access to something similar through your employer-sponsored plan, or you can purchase one outside the plan.

As with any deferred annuity, your money in a longevity annuity grows until you start receiving payouts. The later you choose to begin your payments, the larger your payments will be.

Other Issues To Consider

Life Insurance
Many people carry life insurance to replace income, pay off debt, or fund future expenses like college education. Others use life insurance for estate planning. A financial advisor can help determine your life insurance needs in the context of retirement.

Long-term Care Insurance
Long-term care can include care provided at home or in a facility such as a nursing home or assisted living facility. The cost of long-term care can vary greatly, and for some people purchasing long-term care insurance makes sense.

Did You Know?
71% of long-term care claims start with home care. More than 70% of nursing home residents are women.

A financial advisor with expertise in long-term care planning can help you understand your insurance options. For more information, visit www.aaltci.org.

Action Item:
Talk with your loved ones about living arrangements in retirement. Assess your insurance needs.

Source: American Association for Long-Term Care Insurance and AARP.
Any guarantees are subject to the claims-paying ability of the issuing insurance company.

Health Care In Retirement

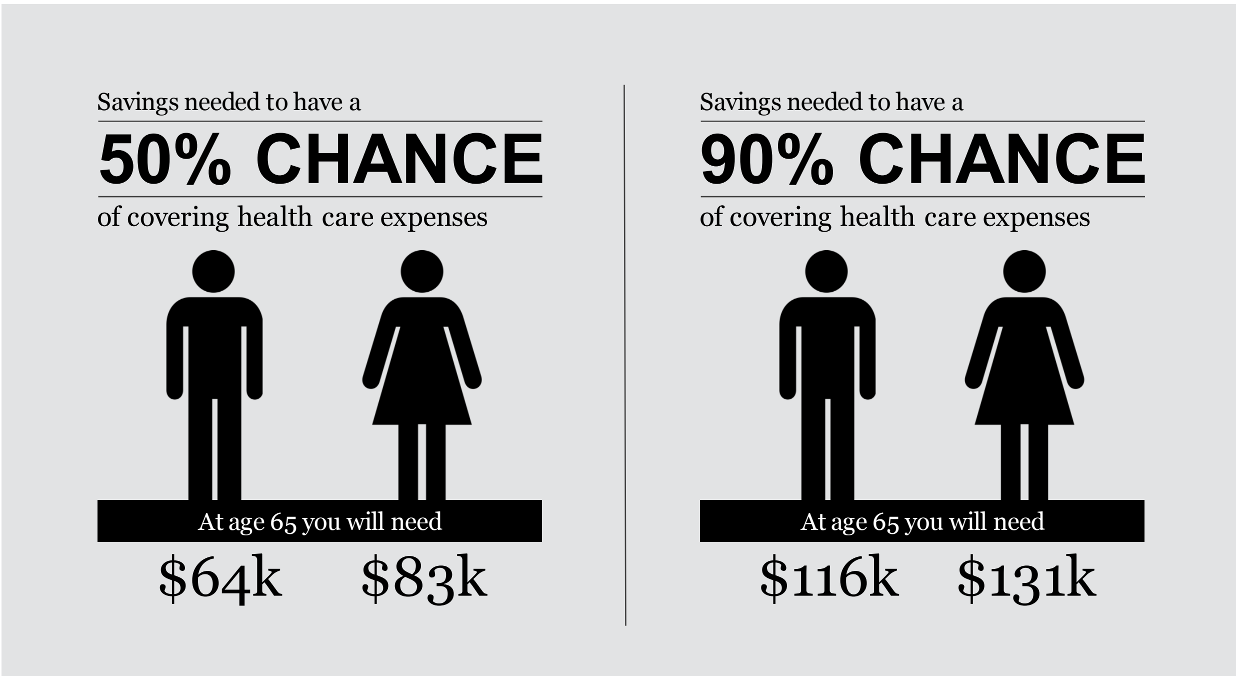
What Will It Cost?

Inflation plays a big part in determining how these costs are calculated. Many people believe that once they reach age 65, Medicare will cover their health costs – and this is true, up to a point. Medicare covers, on average, 60% of the health costs of a typical retiree. The other 40% comes out of your pocket.

Health Care Costs Tend to Increase Faster than the Rate of Inflation.
Medicare Part B premiums increased by 10% per year on average from 2003 through 2008, and by over 14% in 2010.

Spending too much on Medicare premiums can be a serious drain on your finances in retirement. The money will be coming out of your hard-earned retirement savings or Social Security. To maximize the value of this benefit, understand your options and manage your benefits every year as if they were investments.

The High Cost Of Health Care In Retirement[1]



Because of the significance of health care costs in retirement, you will want to be sure to understand your options and choose the insurance plan that best fits your situation. Although a great deal of information is available online to help you make your choices, the information can be difficult to understand and process. A certified Medicare broker will be familiar with the options in your area and can help you make the right choice each year. This is not a "set it and forget it" process – you should review your coverage every year with an eye toward your own personal situation.

Source: EBRI.

[1]The Employee Benefits Research Institute (EBRI) does a study every year looking at the initial savings that a retiring couple may need in order to fund medical expenses throughout retirement. Included expenses are premiums for Medicare, Medigap insurance, out-of-pocket drug costs, and health care costs not covered by insurance (eyewear, dental work, hearing aids) and excluding nursing home care. The study separates the results based on simulations involving longevity, investment return, and medical costs, as well as on alternative (average and high) prescription drug expense levels. The pictograph above shows the total savings needed at retirement for the average couple to have a 50% chance of funding these expenses (with median prescription drug expenses) and for the same couple to have a 90% chance of funding these expenses.

Medicare Basics

Medicare is a government-run health insurance system for Americans over age 65 and the disabled of any age. Medicare is funded through employee and employer payroll contributions during working years, and covers a portion of health care costs primarily for individuals age 65 and over. Medicare is split into four separate segments, called Medicare Parts A, B, C, and D. Each segment of Medicare covers different portions of the potential health care costs that retirees may face.

	Medicare Part A	Medicare Part B
Coverage	Hospitalization, Home Health Care, Skilled Nursing, Hospice	Doctors' services, medical equipment, ambulance fees, outpatient physical therapy, preventive care like diabetes tests, flu shots and cancer screenings, and similar costs.
Cost	Free to those 65 and over	Annual Premium: based on Modified Adjusted Gross Income, $104.90/month in 2016 for most.
Deductible & Co-insurance	Deductible (2016): $1,260 per "benefit period" or 60-day hospital stay. Deductibles and co-insurance apply to other services as well.	Annual Part B Deductible: $147 in 2016. Co-insurance: varies with the service. After the deductible is met, Part B covers a percentage of the cost, and you will be responsible for the balance.
Important Notes on Timing	In general, you are automatically signed up for Medicare Part A when you apply for Social Security. Once retired individuals begin receiving Part A benefits at age 65, they are automatically enrolled in Part B and must waive the benefits if they do not want them. Individuals should be aware that they generally have only a seven month window to sign up for Part B at the stated costs (counting the month they reach age 65, plus the three month periods preceding and following that month). Retirees who enroll outside of this window will have to wait for a general Part B enrollment period (January 1 - March 31 of each year, with coverage becoming effective July 1 of the same year). They may also have to pay a late enrollment penalty which will cause their premium to be higher for as long as they remain covered under Part B.	

Medicare Part C (Medicare Advantage)

Medicare Part C (Part C), also known as Medicare Advantage, is another way to get the benefits and services covered under Parts A and B. Part C plans are approved by Medicare but are administered through private insurance companies that have contracts with Medicare to provide coverage. Part C policies vary dramatically and can include vision, dental, and some prescription drug coverage.

Part C plans are set up in several different ways. For example, Part C coverage can be a Health Maintenance Organization plan (HMO) or a Preferred Provider Organization plan (PPO). For expenses to be covered, retirees may need to see only certain physicians (i.e., in-network providers). Likewise, since the insurance is provided through private insurers, coverage provisions and premiums can vary widely.

In some parts of the country, Part C coverage is offered as a “high-deductible” health plan (HDHP) with a Medical Savings account. Similar to the HDHP/Health Savings Account model, the retiree buys a Part C health plan with a high deductible from a private insurance company, pays zero premium (except for Part B premium) and Medicare deposits money into a Medical Savings Account which is available for medical expenses on a tax-free basis.

There are several places to find more information on Part C plans. The Medicare website (medicare.gov) allows you to compare plans side-by-side and includes a vast amount of information, such as plan ratings, coverage areas, and much more. A certified Medicare broker can help you sort through the information and make a decision that best suits your situation.

Prescription Drugs (Part D)

Medicare Part D (Part D) provides prescription drug coverage. In order to sign up for Part D, you must be enrolled in either Part A or Part B.

Enrollment into a Part D plan may be deferred with no penalty if you are covered under another health care plan with creditable prescription drug coverage. (Prescription drug coverage is creditable if it is expected to pay, on average, at least as much as Part D standard coverage would pay.)

If you have a Medicare Advantage policy you may not need Part D, since many Medicare Advantage plans offer at least some prescription drug coverage. Like Part C, Part D coverage is provided through private insurers who have contracts with Medicare. The basics of each plan are standardized. Before selecting a plan, closely examine each plan’s drug formulary and pharmacy network to ensure that it will meet your needs.

In general, each Part D plan will have a monthly premium (based on your income), while many plans will have a small annual deductible. Part D plans also have a period known as the “donut hole,” when the amount paid by the retiree is higher. These amounts are set each year by Medicare. A certified Medicare broker can assist you in selecting the right Part D plan.

“Medigap” Policies

While Medicare Parts A, B, and D cover different portions of health care costs in retirement, their coverage is incomplete. The policies have a large number of gaps, including potentially large co-insurance burdens and deductibles. As such, Medicare has created ten policies that cover these gaps, known as Medigap policies. These policies, which are standardized by Medicare but are sold and administered through private insurance companies, are intended to provide retirees with optional additional coverage during retirement. Retirees must be enrolled in both Part A and Part B in order to be covered by a Medigap policy.

Action Item:
Make a list of prescriptions for Part D coverage. Explore the medicare.gov website.

Did You Know?
Medigap Timing - Medigap policies must be purchased within six months of signing up for Medicare Part B coverage. If the deadline is missed, retirees risk disqualification and/or higher premiums.

Questions & Answers About Medicare

Aren't Medicare plans all the same?
No. The available options are numerous and should be reviewed carefully. If a retiree enrolls in Medicare Part A, should they sign up for Medicare Part B? What about Part D (drug coverage) and one of several Medigap policies? If they instead enroll in a Medicare Part C plan through a private insurer, which policy is most appropriate? Unfortunately, there is no single answer that helps determine which health insurance option in retirement is the most appropriate. A certified Medicare broker can assist you with these questions.

Several things to consider
Open Network
In general, many physicians will accept Medicare coverage, including Medicare Parts A and B, and Medigap policies. However, with a Medicare Advantage Plan (Part C), retirees may need to stay within a particular network of doctors.

Copayments and Deductibles
With a Medigap policy, a retiree may have much lower deductibles and copayments, since the policy is intended to reduce these, but may pay higher premiums. In contrast, a Medicare Advantage policy may result in higher out-of-pocket costs for service (this is highly dependent on each policy) and has lower premiums.

Premiums
Many factors will affect premiums, including location and coverage provisions. In order to determine which option is most appropriate, retirees should get quotes in their area from insurers as they near age 65. Getting quotes from multiple insurers is recommended since prices may vary widely. Retirees will need to carefully review and compare coverage and costs between original Medicare (Parts A and B) plus Part D and Medigap, with the costs and coverage available under Medicare Advantage plans in their area in order to select the best option for their individual situations.

Drug Coverage
A key difference between different plans is the level of drug coverage provided. Some Medicare Part C (Medicare Advantage) plans provide drug coverage, including different levels of drug coverage, while others do not.

Will I have to change doctors?
In general, many physicians will accept Medicare coverage, including Medicare Parts A and B, and Medigap policies. However, with a Medicare Advantage Plan (Part C), retirees may need to stay within a particular network of doctors.

Will Medicare cover my spouse?
Medicare policies are individual. If one spouse is under age 65 and losing health insurance due to the retirement of the older spouse, there are several options:

- Some employers allow qualified retirees to continue employer group coverage at subsidized rates. When provided by former employers, the coverage can be fairly comprehensive, especially given the subsidized pricing structure. However, the number of companies offering these benefits has declined over time.

- The younger spouse may be able to enroll in health insurance with his/her own employer. In most cases this is probably the least costly option.
- The younger spouse may be able to purchase individual coverage on a public exchange/marketplace under the Affordable Care Act. Coverage options and pricing will vary by geographic area. More information on coverage options in your state is available through healthcare.gov or a health insurance broker.
- The younger spouse may be eligible for COBRA coverage from the retiring spouse's employer. COBRA is a Federal law that requires employers with 20 or more employees to offer continued coverage for the first 18 months after individuals leave the employer. Some states allow for longer periods of continued coverage, and some states also have similar coverage continuation requirements for employers with fewer than 20 employees. While COBRA offers continued coverage at group rates, the retiree bears the full cost of coverage, plus a 2% administration fee. Employers are required to provide the same group coverage offered to active employees, regardless of current medical condition.

When do I have to enroll in Medicare?
You become eligible for Medicare at age 65. In general, you are automatically signed up for Medicare Part A when you apply for Social Security. If you qualify for premium-free Part A, enrollment in Part B occurs automatically and you must waive the benefit if you do not want them. If you aren't eligible for premium-free Part A, you generally must enroll in Part A and/or Part B when you become eligible.

IMPORTANT: Individuals should be aware that they generally have only a seven month window to sign up for Part B at the stated costs (counting the month they reach age 65, plus the three month periods preceding and following that month). Retirees who enroll outside of this window will have to wait for a general Part B enrollment period (January 1 - March 31 of each year, with coverage becoming effective July 1 of the same year). They may also have to pay a late enrollment penalty which will cause their premium to be higher for as long as they remain covered under Part B.

I plan to keep working after age 65. Can I keep my employer-sponsored health insurance?
Your options, if you continue to work beyond age 65, vary based on the number of employees working at your company.

If your company has fewer than 20 employees, Medicare will be your primary plan and your employer plan will be secondary. You will need to enroll in both Medicare Part A and Part B in order for your employer plan's coverage to continue.

If your company has 20 or more employees, your employer plan will be primary and Medicare will be secondary. You may delay enrollment in Part B without penalty as long as you continue to work and maintain coverage in your employer plan. You will be eligible for a Medicare Part B Special Enrollment Period for eight months after you stop working or your employment-based coverage ends, whichever occurs first. You may also delay enrollment in Part D without penalty, provided that the employer plan that covers you provides creditable prescription drug coverage. Contact your employer's Human Resources Department for information on whether your plan provides creditable prescription drug coverage.

Action Item:
Ask your employer how your employer-sponsored coverage coordinates with Medicare.

I am relocating to be near my kids in another state. Can I take my Medicare Advantage plan with me?

Retirees typically can't switch their coverage outside of the open enrollment period (see below), although there are exceptions (e.g., if the retiree moves outside of the plan's service area). Also, retirees can switch to a Medicare Advantage Plan or Medicare Prescription Drug Plan that has a five-star rating at any time during the year. This five-star special enrollment period can only be used once per year.

For more information about Medicare's plan ratings, visit www.medicare.gov/publications to view the fact sheet, *Use Medicare's Information on Quality to Help You Compare Plans*.

The Medicare system has an open enrollment period each year that typically runs from October through December. During open enrollment, retirees select Medicare Parts A, B, C, and/or D, as well as Medigap coverage.

I intend to travel a lot in my first few years of retirement. Is my Medicare coverage portable?

In general, many physicians will accept Medicare coverage, including Medicare Parts A and B, and Medigap policies. However, with a Medicare Advantage Plan (Part C), retirees may need to stay within a particular network of doctors. If you plan to travel a great deal, a plan that provides access to a broader network of providers is worth investigating.

I have a Health Savings Account with a substantial balance. What happens to my HSA when I turn 65?

When you turn 65 you can use your HSA, tax-free, to pay Medicare premiums or to cover out of pocket expenses such as co-pays and deductibles, to pay long-term care premiums, or for other medical expenses as defined by the IRS. Keep in mind, you are responsible for keeping records of your expenditures to prove how you spent the money in case of audit by the IRS. If you die, your HSA can pass to either a spousal or non-spousal beneficiary. Non-spousal beneficiaries will owe regular income taxes on expenditures from the account.

Action Item:

Review your HSA balance and determine how to maximize its value as part of your financial plan.

Retirement Assets Inventory

Use this checklist to assist in gathering documentation before meeting with an advisor. If you are married or in a partnership, make it a joint project and share your information. Include account numbers, usernames/passwords, and website or institute information.

- ☐ 401(k) or other employer-sponsored plan
- ☐ QDRO or other spousal retirement plan
- ☐ IRA
- ☐ Social Security
  - ☐ Benefits available on your record
  - ☐ Benefits available on current or former spouse's record
- ☐ Veterans' Benefits
- ☐ Pension Plan
- ☐ Annuity
- ☐ Health Savings Account
- ☐ Health Insurance – access to employer-sponsored plan?
- ☐ Life Insurance
- ☐ Other Savings

Keep this document in a safe place with your other important papers.

Action Items

Here are a few actions you can take now to start a conversation with your partner or a financial advisor.

Social Security

- [ ] Get a copy of your earnings record from Social Security and calculate your estimated benefits.
- [ ] Model claiming strategies with your spouse to see if your benefit can be enhanced.
- [ ] If you are divorced or widowed, review your options as an ex-spouse or surviving spouse.

Investment Accounts

- [ ] Review your investments and rebalance as necessary.
- [ ] Make a list of your 401(k) assets. The worksheet in this book will help you organize the information.
- [ ] Evaluate your distribution options and determine what makes sense for your situation.
- [ ] Review and update your beneficiary designations.
- [ ] Talk with your loved ones about living arrangements in retirement.
- [ ] Assess your insurance needs.

Medicare

- [ ] Explore the medicare.gov website.
- [ ] Make a list of prescriptions you want covered under Part D.
- [ ] Ask your employers how your employer-sponsored coverage coordinates with Medicare.
- [ ] Review your HSA balance and determine how to maximize its value as part of your financial plan.

For a checklist of questions to ask a potential financial advisor, visit:

National Association of Personal Financial Advisors
www.napfa.org/HowtoFindAnAdvisor.asp

The Certified Financial Planner Board of Standards
www.letsmakeaplan.org/cfp-pros-their-expertise/selecting-an-advisor

This guide is designed to provide a general overview of the subject matter. It does not constitute legal or investment advice. Speak to a financial advisor for recommendations regarding your own situation.

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FUNDSMA-OV-G004-R (6/16)