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Health care in retirement

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Planning for Health Care in Retirement

Agenda

- The Retirement Income Challenge
- The Health Care Opportunity
- Understanding Health Care
- Creating a Plan to Address Health Care Costs

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Important things to keep in mind

• Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution
• Not insured by any federal government agency • May lose value

The following slides discuss annuities and living benefit riders. When evaluating the purchase of a variable annuity, your clients should be aware that variable annuities are long-term investment vehicles designed for retirement purposes and will fluctuate in value; annuities have limitations; and investing involves market risk, including possible loss of principal.

A guaranteed minimum withdrawal benefit is an optional rider that is available on certain variable annuity contracts for an additional fee.

Both the product prospectus and underlying fund prospectuses can be obtained by writing to Nationwide Life Insurance Company, P.O. Box 182021, Columbus, OH 43218-2021. Carefully consider the fund's investment objectives, risks, charges and expenses.

All guarantees and protections, where available, are subject to the claims-paying ability of Nationwide Life Insurance Company. And, while they do not guarantee the actual performance of the variable accounts, they do offer a level of protection against investment loss.

The data presented in this presentation are hypothetical and may not be used to project or predict actual performance. The income benefit base is calculated based on no withdrawals and does not include any fees assessed. Your clients' experience may be different and investment results may be higher or lower, depending on the options chosen, fees and expenses. Does not include any up-market performance. These results are not reflective of any gains in the market and are assuming guaranteed interest amounts provided by the products used as examples in the case studies.

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The Retirement Income Challenge

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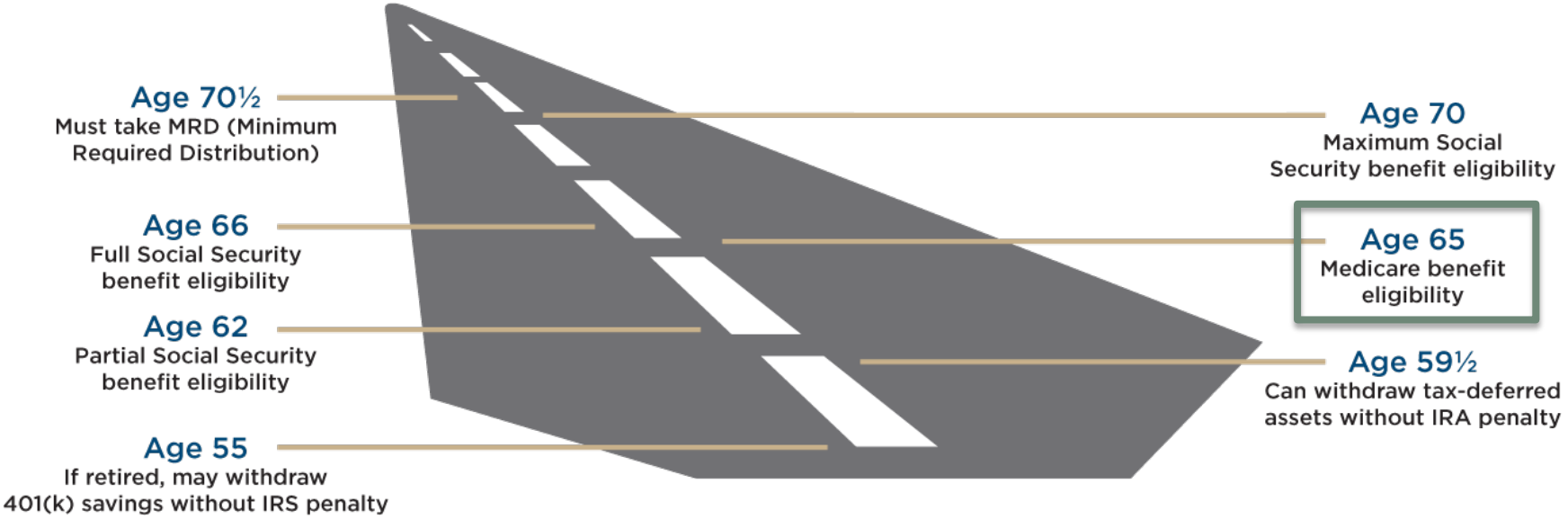
The Retirement Income Challenge

Retirees need to make a series of important decisions between ages 55 and 70½

Retirement Decision Points



The Retirement Income Reference Book, 2009, LIMRA.

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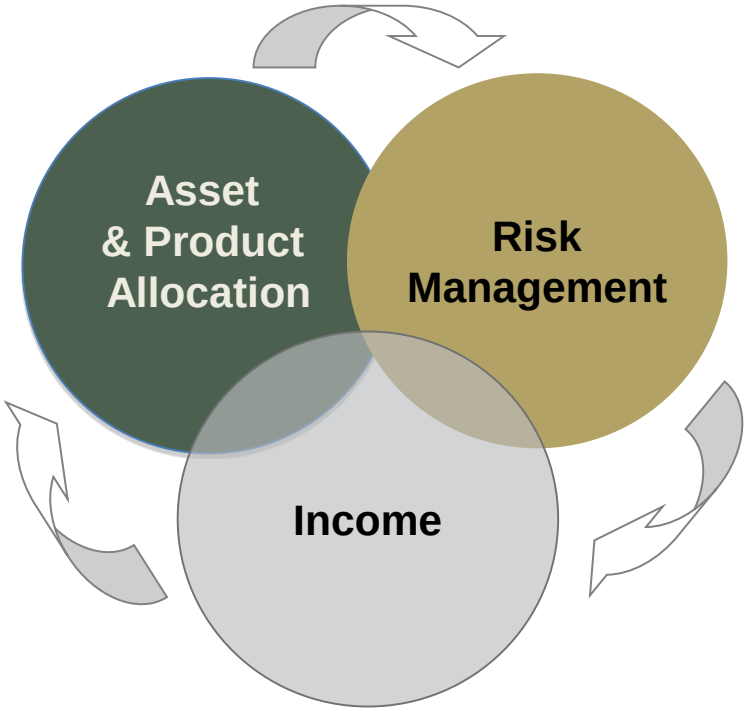
The Retirement Income Challenge

How do I invest for **GROWTH**?



How do I **PROTECT** my assets?

How much **INCOME** can I take and when?

The Retirement Income Reference Book, 2009, LIMRA.

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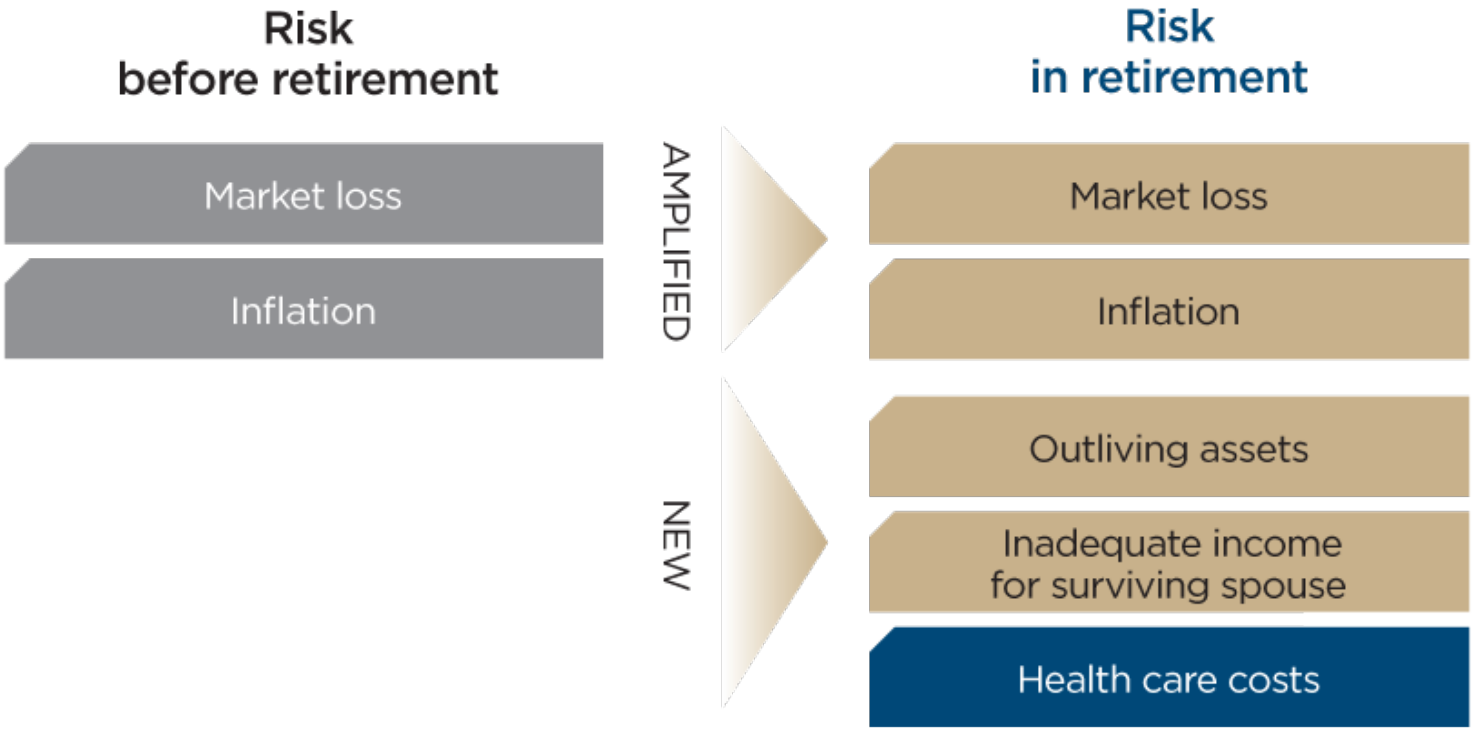
The Retirement Income Challenge



The Retirement Income Reference Book, 2009, LIMRA.

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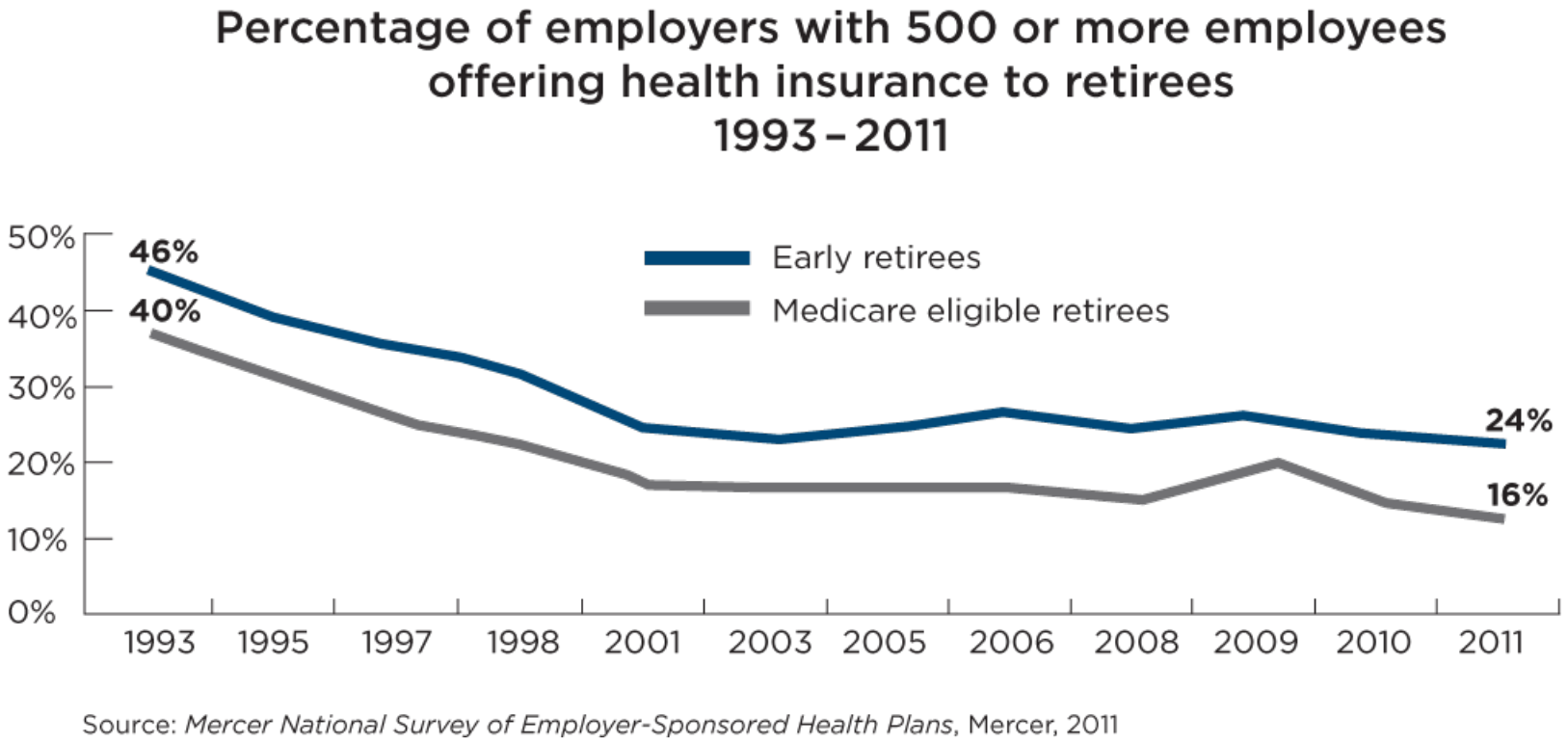
The Retirement Income Challenge



Source: *Mercer National Survey of Employer-Sponsored Health Plans*, Mercer, 2011

LIMRA® "*Yearly Premiums For Family Health Coverage Rise To $12,680 In 2008, Up 5 Percent As Many Workers Also Face Higher Deductibles - Kaiser Family Foundation*." The Henry J. Kaiser Family Foundation - Health Policy, Media Resources, Public Health Education & South Africa - Kaiser Family Foundation. 8 Sept. 2008. Web. http://www.kff.org/newsroom/ehbs092408.cfm

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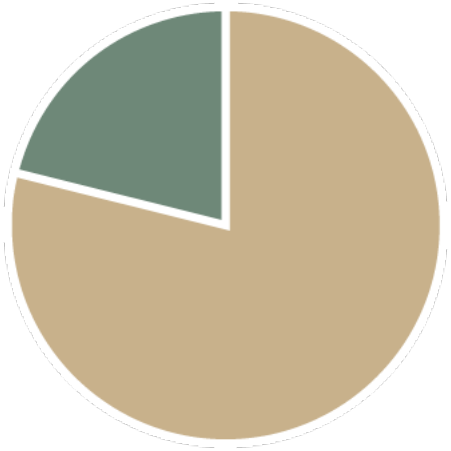
The Retirement Income Challenge

Consumer Estimate of Annual Health Care Costs in Retirement

$10,000:	8%
$6,000 to $9,999:	13%
$3,000 to $5,999:	25%
$1,500 to $2,999:	12%
$0 to $1,499:	16%
Don't Know:	26%



79% have underestimated, or don't know their medical costs

Nationwide Survey "Health Care Costs in Retirement." Consumer study of 625 respondents, January 2012.

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The Retirement Income Challenge

Retirees see it differently:

Priority	Retirees
1	Health Care
2	Inflation
3	Volatility
4	Longevity

Priority	Advisors
1	Longevity
2	Volatility
3	Health Care
4	Inflation

The Retirement Income Reference Book, 2009, LIMRA.

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The Health Care Opportunity

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The Health Care Opportunity

- Managing the cost of health care is one of the most complex issues facing society
- Will likely be among your client's greatest expenses in retirement

"*Fidelity Investments Estimates Couples retiring in 2010 Will Need $250,000 to Pay Medical Expenses In Retirement*." Study conducted by Infogroup/ORC from March 4th – 14th 2010 and includes 376 respondents.
Fronstin, Paul. "*Savings Needed to Fund Health Insurance and Health Care Expenses in Retirement: Findings from a Simulation Model | EBRI*." Employee Benefit Research Institute | EBRI. May 2008.

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The Health Care Opportunity

Health care costs can have a significant impact on investors:

- **33%** Have difficulty paying bills
- **27%** Use up all or most of savings
- **14%** Borrow money

Helman, Ruth, Matthew Greenwald, and Associates. "*2006 – 2011 Health Confidence Survey*." www.ebri.org/pdf/EBRI_Notes_09-2011.pdf

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The Health Care Opportunity

Health care is an important concern:

59%	Affluent Americans with a high concern about health care in retirement[1]
2nd largest	Expense in retirement – second only to housing when it comes to the major expenses in retirement[2]
6.7%	Projected annual growth in health care spending through 2017[3]

1 Merrill Lynch Affluent Insights Quarterly survey, 2009.
2 "*Average Annual Expenditures and Characteristics,*" Consumer Expenditure Survey, 2009, Bureau of Labor Statistics. (Percentage of total expenditure for 75+ year olds)
3 "*Health Spending Projections Through 2017: The Baby-Boom Generation is Coming to Medicare*," Health Affairs March/April 2008 – Volume 27, Number 2.

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The Health Care Opportunity

Consumers want help:

79%	Are unable to accurately estimate health care costs in retirement[4]
Nearly 2/3	Plan to seek out health care information in the next year[5]
45%	Would like to discuss health care with a financial advisor[6]

[4] Nationwide Survey "*Health Care Costs in Retirement.*" Consumer study of 625 respondents , January 2012.
[5] Survey conducted via telephone to 376 respondents March 4–14, 2010, by Infogroup/ORC of Princeton, N.J.
[6] Helping Clients Plan for Healthcare Costs in Retirement, FA Strategy Guide, Merrill Lynch Wealth Management, Bank of America Corporation, 2010.

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The Health Care Opportunity

Advisors' self-rating[7]	Percent well equipped for client retirement needs in the areas of…
65%	Wealth retention
67%	Income creation
7%	Health care issues

[7] "*Retirement Readiness. It's Crunch Time for Advisors Helping Boomers Prepare for Retirement*," RydexAdvisor Benchmarking, Inc., March 2007.

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Understanding Health Care

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Understanding Health Care

- The impact of health care costs on retirement income
- Understanding health care specifics

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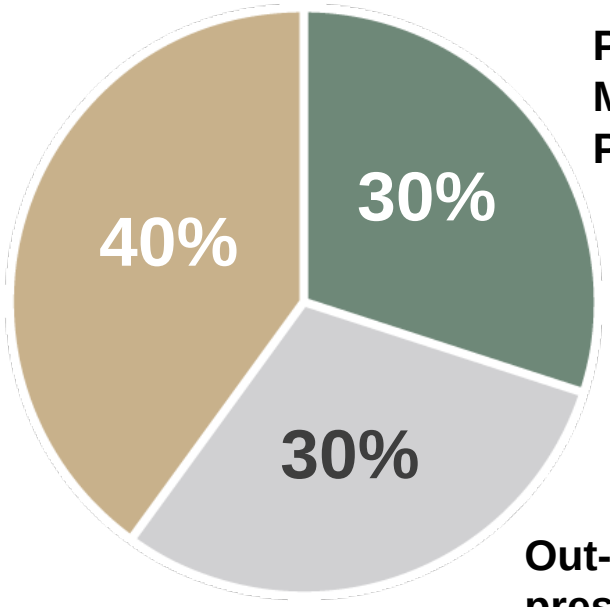
Understanding Health Care

Health care expenses



Premiums for Medicare, Part B & D

Medicare cost-sharing provisions

Out-of-pocket prescription drug expenses

$250,000 – 430,000:
Out-of-pocket health care expense estimate for a 65-year-old couple.[8]

[8] Fidelity Consulting Services, 2010. Based on a hypothetical couple retiring in 2010, 65 years or older with average (82 male, 85 female) and longer (92 male, 94 female) life expectancies. Estimates are calculated for "average" retirees, but may be more or less depending on actual health status, area, and longevity.

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Understanding Health Care

- **Medicare covers only about 51% of expenses** associated with health care services[9]
  - Individuals are largely responsible for covering the other 49%

- **80% of people** surveyed think that Medicare covers long-term care — it does not[9]

[9] Fronstin, Paul. "*Savings Needed to Fund Health Insurance and Health Care Expenses in Retirement: Findings from a Simulation Model EBRI*." Employee Benefit Research Institute | EBRI. May 2008.

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Understanding Health Care

Option 1

Original Medicare
Part A and Part B

+

Secondary Insurance
GHI, MedSup

+

Rx Coverage
Part D or GHI

OR

Option 2

Medicare Advantage (Part C)

1. Hospitalization,
2. Medical
3. Rx (MA-PD)

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Understanding Health Care

Option 1 – Medicare Part A: Hospital Insurance[10]

- Inpatient Hospitalization
- Skilled Nursing Facilities
- Home Health Care
- Hospice

Patient costs for an in-hospital stay	
Days 1 - 60	**$1,184 deductible**
Days 61 - 90	**$296 per day copay**
Days 91 - 150	**$592 per day copay**
Days 150+	**All costs**

[10] The Official U.S. government Medicare Handbook, Medicare & You, 2013.

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Understanding Health Care

Option 1 – Medicare Part B: Medical Insurance[11]

- Doctors/Providers
- Preventive Benefits
- Durable Medical Equipment
- Outpatient services

Individual Pays
• Monthly premium (based on AGI)
• $147 deductible
• 20% coinsurance on doctors' services and outpatient care

[11] The Official U.S. government Medicare Handbook, Medicare & You, 2013.

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Option 1 – Medicare Part B: Monthly Premiums[12]

If Your Yearly Income in 2011 was:		You Pay
Filed Individual Tax Return	Filed Joint Tax Return	
$85,000 or less	$170,000 or less	$104.90
$85,000 - $107,000	$170,000 - $214,000	$146.90
$107,000 - $160,000	$214,000 - $320,000	$209.80
$160,000 - $214,000	$320,000 - $428,000	$272.70
above $214,000	above $428,000	$335.70

[12] The Official U.S. government Medicare Handbook, Medicare & You, 2013.

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Understanding Health Care

Option 1 – Medicare Part D: Prescription Drug Coverage

- Available two ways:
  - Stand-alone Prescription Drug Plans (PDPs)
  - Through Medicare Advantage Plans (MAPDs)
- ALL people with Medicare can get Part D
- Open Enrollment Oct 15th to Dec 7th 2013:
  - Other enrollment times based on circumstance
  - Coverage begins Jan 1, 2014

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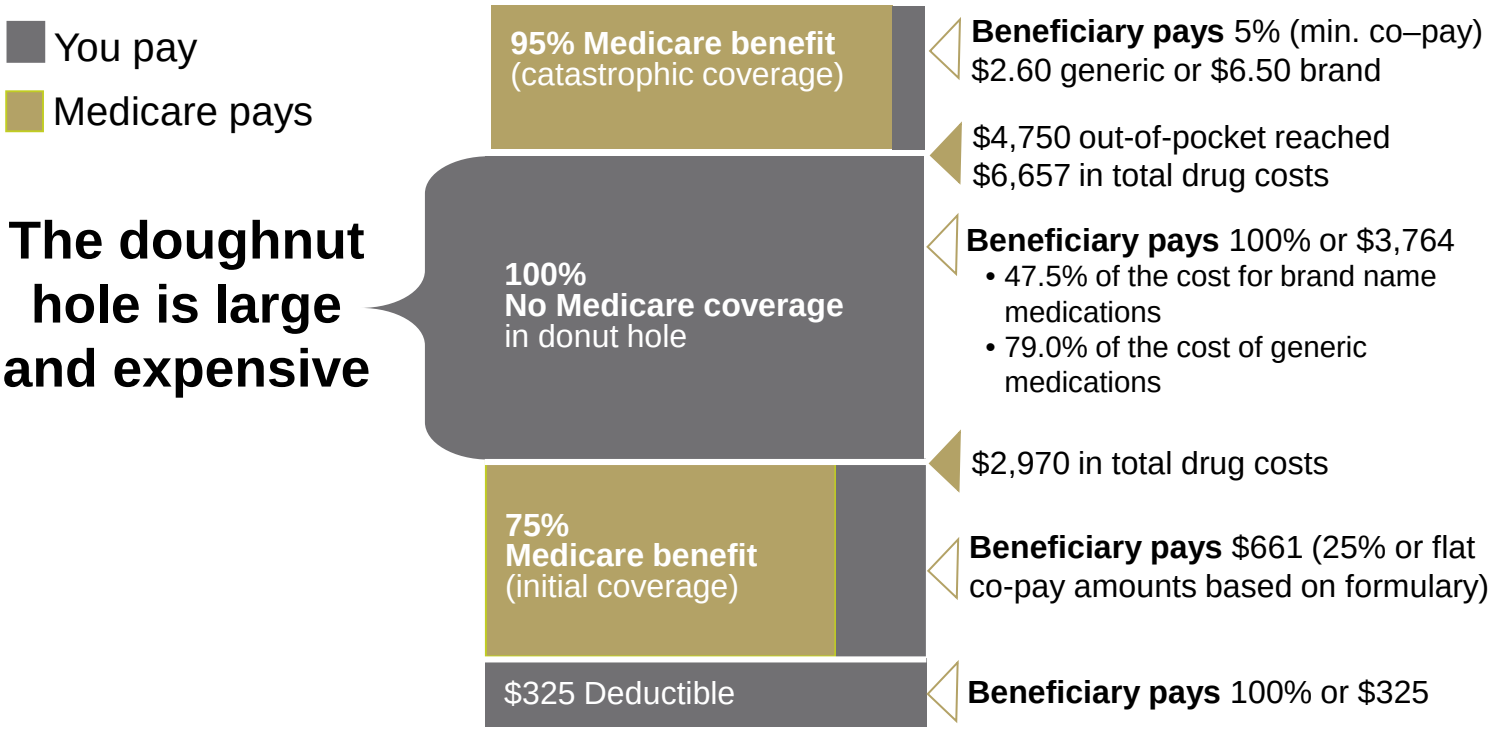
Understanding Health Care

Option 1 – Medicare Part D: Prescription Drug Coverage (2013)

** Premiums vary by insurer



Medicare.gov

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Option 1 – Medigap: Medicare supplemental insurance

- Pay only after Original Medicare (Parts A & B)
- Flexibility to see any doctor who accepts Medicare
- Open Enrollment - 6 months beginning with Part B effective date at age 65 or older
- Does not cover prescriptions

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Cost of Medicare Premiums:

	Monthly	Annual
Medicare Part A	$0	$0
Medicare Part B	$104.90[13]	$1,258.80
Medicare Part D	$33.00	$400[14]
Medigap Plan C	$ 178	$ 2,136[15]
Total Per Person	**$315.90**	**$3,794.80**
Per Couple	**$631.80**	**$7,589.60**

[13] The Official U.S. government Medicare Handbook, Medicare & You, 2013.
[14] Medicare Part D premiums are on average about $360 per year (varies by State) and are subject to the plan a person selects.
[15] Medigap Insurance can vary by carrier and state. The average plan in 2011 was $178 per person per month for an annual cost of about $2,136.

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Option 2 — Medicare Part C: Medicare Advantage Plans
Offered by private companies to replace Original Medicare and secondary insurance
Numerous options by county: • Managed Care (HMO/PPO) • Non-Managed Care (PFFS/MSA)
Most plans include Part D benefit (MA-PD)
Uncovered hearing, dental, and vision may be covered
Costs may increase for out-of-network doctors
Available to those: • Enrolled in Parts A & B • That live within the plan's service area (county) • That do NOT have End Stage Renal Disease
Enrollees pay Part B premium and any other applicable costs

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Understanding Health Care

Applying for Medicare:

- Enrollment automatic if clients get Social Security or Railroad Retirement benefits prior to Medicare eligibility
- All others must apply with Social Security (or Railroad Retirement) during their **seven-month Initial Enrollment Period (IEP)**
  - Three months before 65th birthday
  - Month of 65th birthday
  - Three months after 65th birthday

The sooner the better!

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Understanding Health Care

Leverage these health care planning resources

- **Medicare**
  - www.Medicare.gov
  - 1-800-MEDICARE
  - www.MyMedicare.gov
- **Eldercare.org**
- **State Health Insurance Programs** (SHIP)
- **Benefitscheckup.org**
- **Social Security Administration**
  - www.SocialSecurity.gov
  - 1-800-772-1213

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Creating a plan to address Health Care costs

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Helping clients create a plan

Americans underestimate retirement health care costs

- The majority of pre-retirees have underestimated the cost of health care in retirement

- Help your clients eliminate the guesswork with a personalized health care cost assessment from Nationwide Financial®

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Start with a Health Care Cost Assessment

Determine individual health care costs

- The Nationwide Financial Health Care Cost Assessment
  - Powered by calculations from one of the world's leading actuarial firms
  - Provides a personalized estimate of possible annual health care expenses
  - Includes estimates for Medicare, out-of-pocket and long-term care expenses

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Creating a plan to address health care costs

Personalized health care cost assessment

- Health profile
- Longevity
- Total investment needed at retirement
- Impact of not taking action

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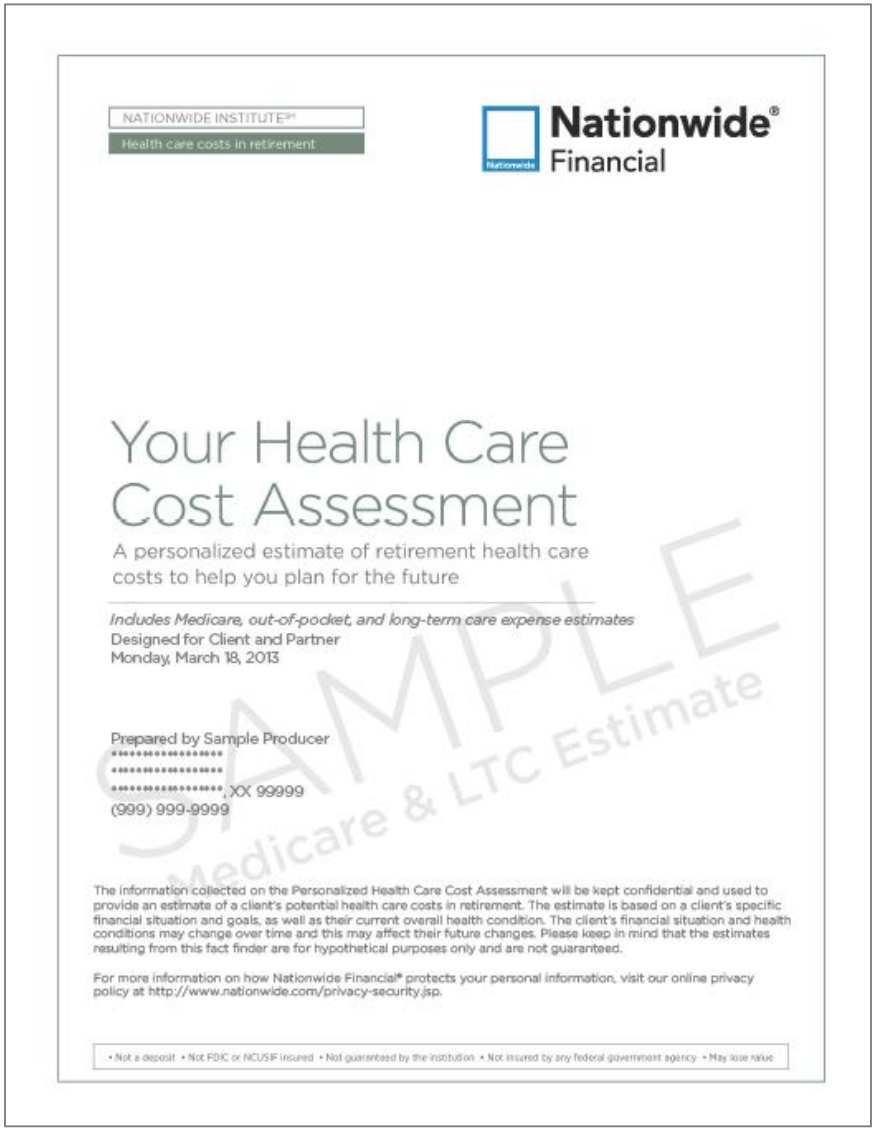
Health Care Cost Assessment



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Health care costs in retirement

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Your Health Care Cost Assessment

A personalized estimate of retirement health care costs to help you plan for the future

Includes Medicare, out-of-pocket, and long-term care expense estimates
Designed for Client and Partner
Monday, March 18, 2013

Prepared by Sample Producer
****
****
**********, XX 99999
(999) 999-9999

SAMPLE
Medicare & LTC Estimate

The information collected on the Personalized Health Care Cost Assessment will be kept confidential and used to provide an estimate of a client's potential health care costs in retirement. The estimate is based on a client's specific financial situation and goals, as well as their current overall health condition. The client's financial situation and health conditions may change over time and this may affect their future changes. Please keep in mind that the estimates resulting from this fact finder are for hypothetical purposes only and are not guaranteed.

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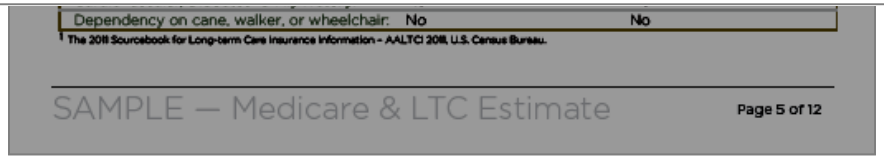
Health Care Cost Assessment

Client Facts

	Client	Partner
Age/Gender:	Male, Age 60	Female, Age 60
Retirement Age:	65	65
Life Expectancy:	80	90
State:	OH	OH
Income Level:	Married Filing Jointly — $170,000 or less	
Medicare Coverage:	Medicare premiums plus additional medical costs	
Current Health		
High blood pressure:	No	No
High cholesterol:	No	No
Type 1 diabetes:	No	No
Type 2 diabetes:	No	No
Cardiovascular disease:	No	No
Cancer:	Diagnosed 5 years ago	No
Multiple Sclerosis:	No	No
Lifestyle & health history		
Tobacco user:	No	No
Regular exercise schedule:	Yes	Yes
Healthy diet:	Yes	Yes
Cardiovascular/Diabetes family history:	No	No
Dependency on cane, walker, or wheelchair:	No	No

[1] The 2011 Sourcebook for Long-term Care Insurance Information – AALTCI 2011, U.S. Census Bureau.



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Health Care Cost Assessment

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Health care costs in retirement

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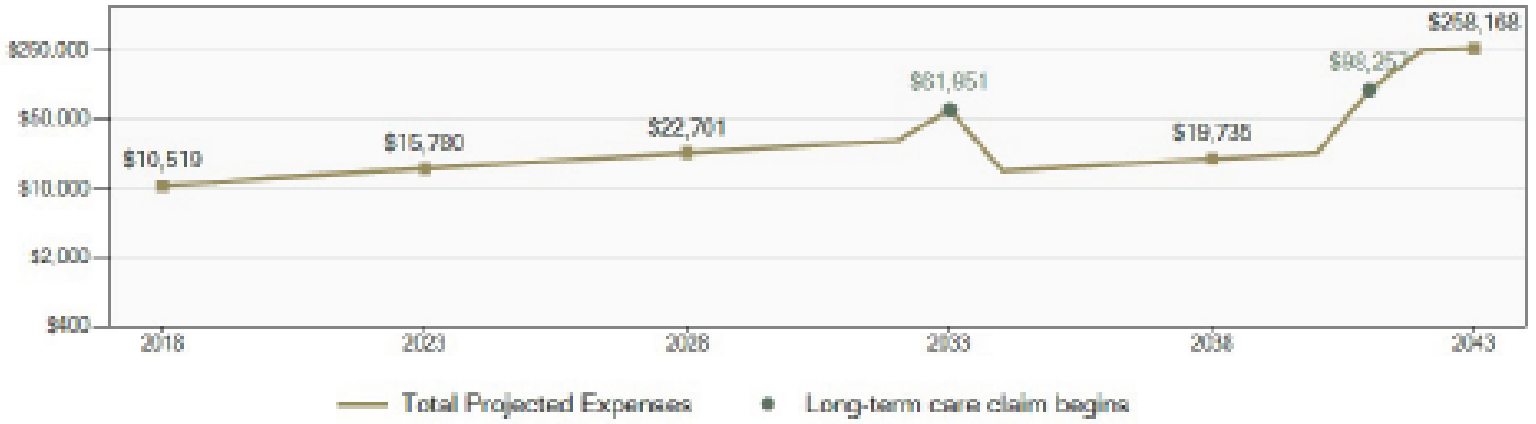
Overall

The following graph shows the *total* estimated cost of health care in retirement.



Amounts for under age 65 assume 100% member responsibility for private health insurance premiums and other associated medical costs. Amounts for age 65 and older assume coverage by Medicare Part A and include insurance premiums for Medicare Parts B, D, and supplemental insurance, plus additional associated medical costs.

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Health Care Cost Assessment

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Health care costs in retirement

Personalized Health Care Cost Assessment

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2034				81	$14,012	$889		$14,901
2035				82	$15,032	$933		$15,965
2036				83	$16,161	$976		$17,137
2037				84	$17,371	$1,021		$18,392
2038				85	$18,666	$1,069		$19,735
2039				86	$20,054	$1,119		$21,173
2040				87	$21,541	$1,172		$22,713
2041				88	$23,005	$1,238	$74,014	$98,257
2042				89	$24,504	$1,295	$222,063	$247,862
2043				90	$26,071	$1,349	$230,747	$258,168
Total	$131,658	$49,667	$29,823		$324,462	$20,635	$526,824	$1,083,070
Average	$8,229	$3,104			$12,479	$794		

Expense for Couple	Expense Type	Annual Average*	Total
	Premiums & Additional Costs	$20,247	$526,423
	Long-term Care	—	$556,647

* based on life expectancy of longest surviving spouse/partner

2042				89	$24,504	$1,295	$222,063	$247,862
2043				90	$26,071	$1,349	$230,747	$258,168
Total	$131,658	$49,667	$29,823		$324,462	$20,635	$526,824	$1,083,070
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SAMPLE — Medicare & LTC Estimate

Page 7 of 12

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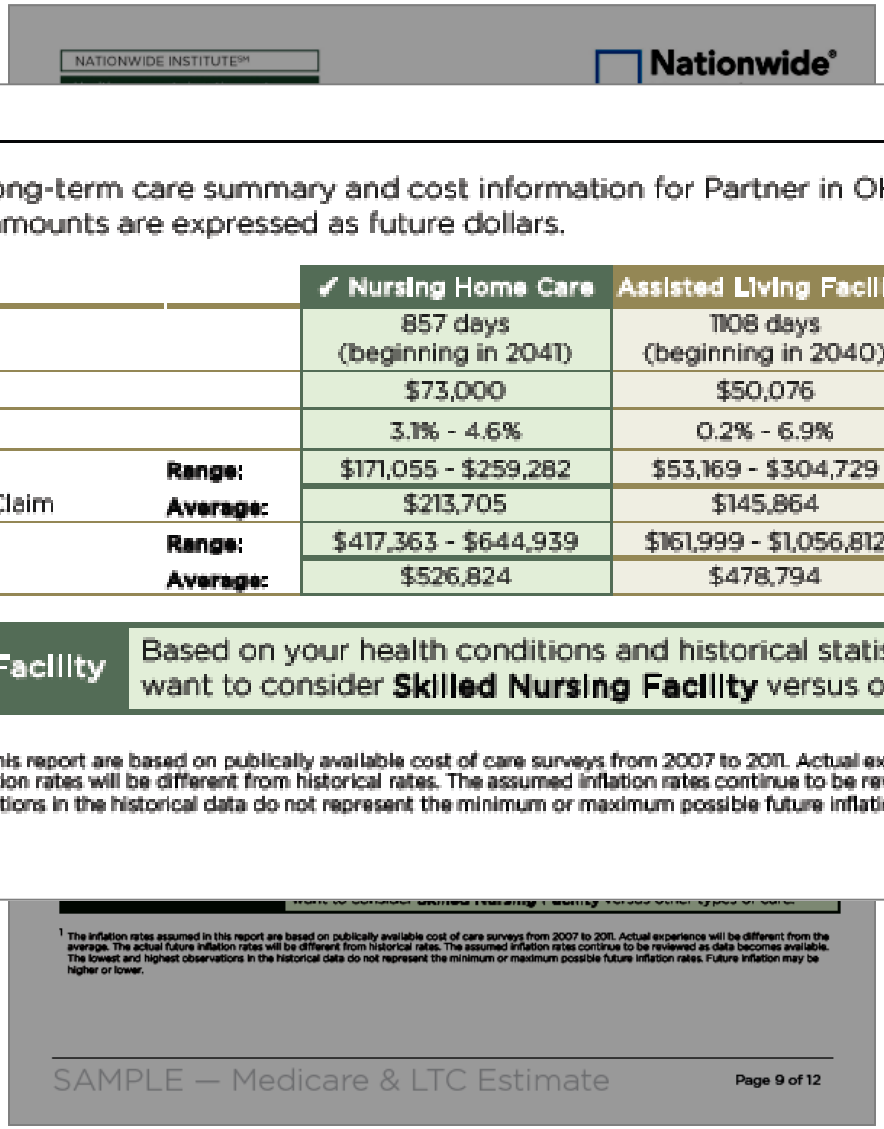
Health Care Cost Assessment



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Partner

The following shows long-term care summary and cost information for Partner in OH, metro region Columbus. Projected amounts are expressed as future dollars.

		✓ Nursing Home Care	Assisted Living Facility	Home Health Care
Average Length of Stay		857 days (beginning in 2041)	1108 days (beginning in 2040)	482 days (beginning in 2042)
Annual Cost Today		$73,000	$50,076	$43,998
Projected Inflation Rate[1]		3.1% - 4.6%	0.2% - 6.9%	0.0% - 1.3%
Projected Annual Cost at Claim	Range:	$171,055 - $259,282	$53,169 - $304,729	$43,998 - $63,661
	Average:	$213,705	$145,864	$57,845
Projected Total Cost	Range:	$417,363 - $644,939	$161,999 - $1,056,812	$58,062 - $84,826
	Average:	$526,824	$478,794	$76,883

✓ Skilled Nursing Facility

Based on your health conditions and historical statistical data, you may want to consider **Skilled Nursing Facility** versus other types of care.

[1] The inflation rates assumed in this report are based on publically available cost of care surveys from 2007 to 2011. Actual experience will be different from the average. The actual future inflation rates will be different from historical rates. The assumed inflation rates continue to be reviewed as data becomes available. The lowest and highest observations in the historical data do not represent the minimum or maximum possible future inflation rates. Future inflation may be higher or lower.

SAMPLE — Medicare & LTC Estimate

Page 9 of 12

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Health Care Cost Assessment

Client Fact Finder

Assessment Questions (Check Yes or No)	Client's Response	Spouse's/Partner's Response
Current health*		
Diagnosed with high blood pressure?	☐ Yes ☐ No	☐ Yes ☐ No

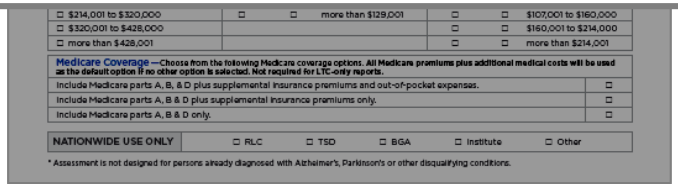
Annual Income in Retirement—Select the range that best fits your actual or estimated post-retirement income (not your income level before retirement.) Use your modified adjusted gross income (MAGI) and assume today's dollars. Your retirement income helps determine the cost for Medicare Parts B & D.

Medicare Coverage—Choose from the following Medicare coverage options. All Medicare premiums plus additional medical costs will be used as the default option if no other option is selected. Not required for LTC-only reports.

Include Medicare parts A, B, & D plus supplemental insurance premiums and out-of-pocket expenses.	☐
Include Medicare parts A, B & D plus supplemental insurance premiums only.	☐
Include Medicare parts A, B & D only.	☐

☐ $320,001 to $428,000		☐	☐ $160,001 to $214,000
☐ more than $428,001		☐	☐ more than $214,001

Exercise for at least 2 hours a week?	☐ Yes ☐ No	☐ Yes ☐ No
Follow a healthy, well-balanced diet?	☐ Yes ☐ No	☐ Yes ☐ No
Family history of diabetes or cardiovascular disease?	☐ Yes ☐ No	☐ Yes ☐ No



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Summary:

- The Retirement Income Challenge
- The Health Care Opportunity
- Understanding Health Care
- Creating a plan to address health care costs

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1. **Regional Vice Presidents**

2. **Income Planning Desk**
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