



RETIREMENT'S KNOWN UNKNOWNNS

MEDICARE

Coping with the soaring costs of healthcare in retirement is one of the most stressful aspects of growing old in America. Although most retirees will have Medicare coverage, many of them are ill-prepared for the often staggering expenses of what the program doesn't cover.

Medicare does not cover many common expenses including insurance premiums, deductibles, co-pays, routine eye exams, hearing aids, and dental visits. Research suggests that a couple retiring at age 65 in 2020 would need at least \$265,000 in savings to have a better-than-average chance of meeting their lifetime out-of-pocket medical bills.¹ Planning ahead for this reality is one of the smartest moves you can make to ensure a comfortable and financially secure retirement.

UNDERSTANDING MEDICARE COVERAGE

Medicare is the federal government's health insurance plan that provides payment for the basic medical care of most US citizens age 65 and older and for those under 65 with certain disabilities. Many people assume that Medicare will cover everything. But based on the most recent data available, in 2010 the program only covered around 62% of seniors' total healthcare costs. Individuals enrolled in Medicare paid 12% out of their own funds, private insurance covered 13% and the balance came from other sources such as Medicaid and Veterans Affairs benefits.² That's why it is so important to understand the specific services included in each of Medicare's four main parts and how they work.

PART A: HOSPITAL INSURANCE

Part A pays for inpatient care in hospitals, skilled nursing facilities and rehabilitation facilities, as well as hospice and home healthcare services. It does not, however, cover long-term (custodial) care. Enrollment is automatic and premium-free if you or your spouse paid Medicare taxes for at least 10 years while working. If not, you can buy coverage for a current monthly premium of up to \$426. For 2014, the deductible for a hospital stay of 50 days or less is \$1,216; beneficiaries

incur co-payments of \$304 per day for days 61–90, \$608 per day for days 91–150 and no coverage after 150 days. There is also significant cost-sharing and limited coverage for skilled nursing.

PART B: MEDICAL INSURANCE

Part B pays for certain doctors' and other healthcare providers' services, outpatient care, preventative services, medical supplies and equipment, but does not cover routine dental and vision care. To enroll, you pay a monthly premium that increases on an escalating scale based on income, including investment income. Once the deductible is met (\$147 in 2014), you are required to pay 20% of the approved amount charged by your healthcare provider.

PART B PREMIUMS BY INCOME

If your yearly income in 2012 was		
Filed individually	Filed jointly	You Pay (in 2014)
\$85,000 or less	\$170,000 or less	\$104.90
above \$85,000 up to \$107,000	above \$170,000 up to \$214,000	\$146.90
above \$107,000 up to \$160,000	above \$214,000 up to \$320,000	\$209.80
Bed or Chair Transfer	above \$320,000 up to \$428,000	\$272.70
above \$160,000 up to \$214,000	above \$428,000	\$335.70

Source: www.medicare.gov

¹ Employee Benefit Research Institute (EBRI), "Funding Savings Needed for Health Expenses for Persons Eligible for Medicare," Issue Brief No. 351 (December 2010). Estimates cited are for 65-year-old beneficiaries purchasing Medigap Plan F and Medicare Part D outpatient drug benefits to supplement Medicare benefits based on 2010 costs; assumes median prescription drug expenses and a 50% chance of having enough money for healthcare in retirement; excludes outlays for long-term (home-based) care.

² EBRI Notes, Vol. 34, No. 10 (October 2013); estimates based on the 2010 Medical Expenditure Panel Survey.

MEDIGAP INSURANCE

Medigap policies are sold by private insurance companies to fill in the holes in the original Medicare coverage, including the deductibles and co-payments not covered by Medicare Parts A or B. Such plans are standardized by plan type and organized alphabetically from A to N. Plans C and F, which cover nearly all of the costs that Medicare does not, are the most popular.

MEDICAL BILLS CAN DECIMATE YOUR RETIREMENT FINANCES

Your healthcare needs are likely to grow as you age and become more prone to health problems. Given increasing longevity and escalating medical costs, you can also expect to pay a significant portion of these expenses from your own funds. In its 2012 research paper, the AARP Public Policy Institute reported that Medicare beneficiaries spent a median of \$3,138 (or 16.6%) of their own money on healthcare in 2007, the latest year for which comprehensive data is available. Beneficiaries in poorer health spent more than 25% of their income on medical bills this year.³

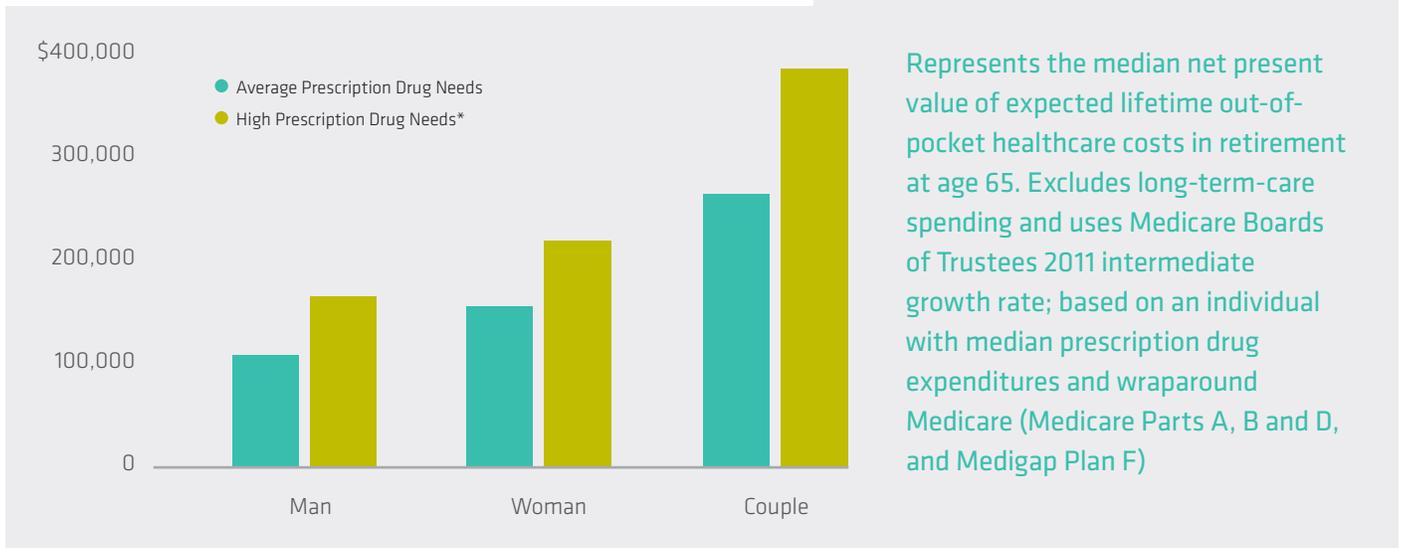
With overall healthcare costs rising faster than beneficiaries' income, out-of-pocket healthcare expenses are expected to account for an even bigger slice of retirees' financial resources in the future.⁴

Estimating how much you'll need to set aside for these future expenses can be daunting given all the unpredictables involved. One comprehensive study estimated that a man with median prescription drug expenses planning to retire at age 65 in 2020 would need \$109,000 in savings to have an average chance of paying his lifetime out-of-pocket medical bills; a woman would need \$156,000, a reflection of her longer life expectancy. The estimate rises considerably for seniors with much higher prescription drug costs (\$166,000 for a man and \$220,000 for a woman).⁵

Don't let the growing costs of healthcare or an unexpected medical event ruin your retirement finances or force you to make sacrifices in other areas of your life. Preparing for these future needs with a realistic plan is one of the wisest steps you can take to ensure a happy and financially secure retirement.

SAVINGS NEEDED FOR LIFETIME OUT-OF-POCKET HEALTHCARE SPENDING

FOR INDIVIDUALS RETIRING AT AGE 65 IN 2020



* Represents the 90th percentile of prescription drug spending, meaning that these individuals spend more on prescription drugs than 90% of all respondents
Source: Employee Benefit Research Institute, Issue Brief No. 351

3 Claire Noel-Miller, "Medicare Beneficiaries' Out-of-Pocket Spending for Health Care," Insight on the Issues (AARP Public Policy Institute) 65 (May 2012).

4 Kaiser Family Foundation, The Financial Burden of Health Spending for People on Medicare: An Updated Analysis of Out-of-Pocket Spending as a Share of Income, June 2011.

5 EBRI, Issue Brief No. 315.

PART C: MEDICARE ADVANTAGE

Medicare Advantage is an alternative, not a supplement, to Medicare that allows you to receive all of your Parts A and B coverage from a Medicare-approved private insurance company. The plans typically require that you use their networks of healthcare providers and hospitals. Most Advantage policies include Medicare prescription drug coverage (Part D) and may also offer separate plans for dental, vision and other noncovered Part B services for an additional fee. However, most do not cover hospice care. In addition to your Part B premium, you will pay a monthly premium that varies depending on which Medicare Advantage plan you choose. As with traditional Medicare, you'll also be subject to co-payments, deductibles and other out-of-pocket costs. In many cases, Advantage policies charge lower premiums but have higher cost-sharing. Medicare Advantage policies are also not portable outside the local network or community, unlike Medicare and Medigap plans.

PART D: PRESCRIPTION DRUG COVERAGE

Medicare Part D provides subsidized access to drug insurance coverage on a voluntary basis for all beneficiaries, as well as premium and cost-sharing subsidies for low-income enrollees—all made available through Medicare-contracted private companies. You pay a monthly premium in addition to an annual deductible, co-insurance and co-pays. Individuals who meet certain income thresholds may pay an income-related monthly adjustment in addition to the plan premium. You must have Part A and/or Part B coverage to qualify, unless you have prescription coverage as part of a Medicare Advantage plan. You also may incur additional

out-of-pocket costs for drugs not covered by the program. Terms change each year, so it's a good idea to shop around even if you're happy with your current coverage.

HOW VARIABLE ANNUITIES CAN HELP

Variable annuities are long-term investment vehicles designed for retirement purposes and for people who are willing to take more market risk with their money in exchange for greater growth potential. These products may provide the opportunity for market appreciation through an array of investment options and, for an additional cost, may offer guarantees of income, principal and downside protection; they are also subject to fees and expenses.⁶

When considering your overall retirement needs, you may require a source of guaranteed income to help fill gaps in healthcare coverage, offset any shortfalls, and cover unexpected or anticipated out-of-pocket medical costs. Variable annuities can serve as a supplemental solution for covering healthcare expenses in retirement by providing a stream of withdrawals or guaranteed income that can be used to cover Medicare-related costs and premiums.

A sensible retirement plan will make sure that you are investing and saving enough to cover out-of-pocket healthcare expenses and supplemental insurance premiums, which, depending on your age, could average at least \$6,000 a year. Whether you are nearing or already in retirement, variable annuities can play an important role in providing for income and for filling in the often considerable gaps in your retirement healthcare coverage.

PART D PREMIUMS BY INCOME

If your yearly income in 2012 was

Filed individual tax return	Filed joint tax return	You Pay (in 2014)
\$85,000 or less	\$170,000 or less	Your plan premium
above \$85,000, up to \$107,000	above \$170,000, up to \$214,000	\$12.10 + your plan premium
above \$107,000, up to \$160,000	above \$214,000, up to \$320,000	\$31.10 + your plan premium
above \$160,000, up to \$214,000	above \$320,000, up to \$428,000	\$50.20 + your plan premium
above \$214,000	above \$428,000	\$69.30 + your plan premium

Source: www.medicare.gov

⁶ Guarantees are based on the claims-paying ability of the issuing insurance company. Guarantees do not apply to the investment performance or safety of the amounts held in the variable accounts. Such benefits and payments are subject to the financial condition of the insurance company. There are fees and charges associated with variable annuities that include, but are not limited to, mortality and expense risk charges, sales and surrender charges, administrative fees and charges for optional benefits. As with any investment, investing in variable portfolios involves risk, including possible loss of principal. Past performance is not a guarantee of future results.

PLAN AHEAD, CONTROL YOUR DESTINY

Americans are living longer, and seven out of 10 of us are likely to require some sort of long-term care at some point after reaching age 65. We must all plan for the longer road ahead. Although retirement is different for everyone, maintaining a certain standard of living is at the top of most people's wish lists. Tapping precious resources to pay for long-term care could dramatically alter your vision of a comfortable retirement. Plan accordingly and reduce the risk of eroding your retirement assets.

>> LEARN MORE

FOR MORE INFORMATION ON MEDICARE, CHECK OUT WWW.MEDICARE.GOV. IT ALLOWS YOU TO CUSTOMIZE YOUR SEARCH, AND IT WILL PRINT OUT PLANS IN YOUR AREA AND ZIP CODE, DOWN TO THE COUNTY LEVEL.

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