Health & Retirement Services of Illinois
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OUR NEWS LETTER HRSI

Workers must plan on Social Security shortfall when retirement planning, advisers say

A new report on Social Security has rattled some Americans, especially those in their 50s, according to some financial advisors who said folks are wondering how much in benefits they'll get during retirement.

The doubts are surfacing after estimates last week showed Social Security's reserves are projected to run out in 2033, at which point the program will be able to pay out just 77% of benefits to seniors. That has consequences for many workers who plan to rely on Social Security for a major portion of their retirement income.

Many planners said they already take into account Social Security's shortfall during planning sessions — as should all workers, they say — while offering several strategies for nervous Nellies looking toward their golden years.

"When news like this comes out, as it did last week, we field questions from clients concerned if that changes anything for them, or if we need to adjust anything in their financial plans," Brian Ellenbecker, a certified financial planner and financial advisor at Shakespeare Wealth Management in Pewaukee, Wis., told Yahoo Finance. "But this isn't new news necessarily. The Social Security shortfalls have been projected for some time."

'An important piece'

The latest estimate is a year earlier than what was stated in the 2022 report for the Old-Age and Survivors Insurance (OASI) Trust Fund, according to the annual report released Friday from the trustees of the program. The revision reflects a reduction in labor productivity and gross domestic product estimates.

In Our Newsletter

How much a worker can expect from Social Security is especially pivotal for those closest to retirement. For instance, 40% of baby boomer workers expect Social Security to be their primary source of retirement income, compared with 25% for Gen X, 17% for millennials, and 16% for Gen Z, according to a 2022 Transamerica Center for Retirement Studies report.

"Being able to project what you're going to receive is an important piece that will potentially dictate someone's lifestyle in retirement," Ellenbecker said. "Making an adjustment when planning for reduced future benefits is prudent."

That's what Jacob Sadler, a certified financial planner and senior advisor at Bay Point Wealth in Annapolis, Md., does. Sadler counsels clients in their mid-50s on Social Security when he reviews their annual benefit estimates and filing strategies.

"Importantly, we also model scenarios where Social Security benefits are reduced compared to their estimated statement," Sadler told Yahoo Finance. "We will model a 25% reduction in benefits for clients mid-50s or younger, as this time frame to retirement corresponds to the 2034-35 estimate for depletion of the Social Security Trust Fund."

While Ellenbecker didn't need to make adjustments for his clients when the news on the Social Security shortfall came out again, it did "rekindle the conversation."

Ellenbecker begins potential Social Security cutback conversations with his clients by getting a bead on their level of concern and whether it could sense to make an adjustments to their plan.

It also depends on how big of a percentage of their retirement income Social Security is expected to replace.

"If that's going to be, say, 60% or more of their retirement income, we need to take a really deep dive into how changes in the actual benefit amount they might receive would have an impact on their lifestyle," he said.

Making up the shortfall

One way to make up for Social Security's shortfall is to amp up investment returns. Of course, with investments, you can never guarantee the rate of return, Ellenbecker said.

"You can try to increase the risk and add more equities. That doesn't necessarily guarantee that you're going to get a higher return, although it increases the likelihood that you will over that time."

But risk tolerance is an important factor to consider before reallocating risk.

“Are they going to be able to weather the ups and downs that they're gonna experience with a more aggressive portfolio?” Ellenbecker said. “If it's not something they're gonna be able to stick with, if they can't sleep at night, that may not be the right move for them.”

It might be adjusting something else that they have more direct control over that is best to mitigate the potential lower benefit payout down the road.

“There are other levers to pull,” Ellenbecker said. “They can work a couple more years, for instance, or adjust their expected spending in retirement plan forecasts.”

But here is one big lever to grab on to and it’s almost counterintuitive. Retirees should double down on Social Security by waiting to get the biggest benefit they can.

“If someone has the flexibility to delay benefits, then the increase that you get by waiting is hard to match with any other source of income,” he said. “There’s a lot of power in waiting.”

If you choose to delay getting benefits from your full retirement age (FRA), which ranges in age from 66 to 67, until age 70, you earn delayed retirement credits, which come to roughly an 8% per year annual increase in your benefit for each year until you hit 70 when the credits stop accruing.

“That can definitely help combat the possibility of a smaller payout with their Social Security benefit,” Ellenbecker said.

Another, more doom-and-gloom way to plan for smaller Social Security benefits? Don’t plan on them at all, said Cary Carbonaro, a certified financial planner and director of Women and Wealth at Advisors Capital Management.

Many workers aren’t expecting those benefits anyway. A majority (78%) of Generation X workers, too, are concerned Social Security will not be there for them when they are ready to retire as are nearly half (47%) of millennials.

“We don't even include Social Security in our clients’ retirement income plans until they are ‘actually’ taking it,” Carbonaro told Yahoo Finance. “We have always created retirement plans without including Social Security for our clients.”

Medical care costs to spike – how can companies keep their health expenses down?

Healthcare inflation is 'lagging' behind general inflation

The cost of hospital labor, drugs, and medical supplies continue to rise significantly, and hospitals are likely to pass those costs on to health insurers. But it's employers who'll end up paying the bill and will seek ways to keep their health plan policy expenses down.

Amid record inflation rates, medical care costs are expected to surge even further, according to one industry expert.

Hospitals and health systems are projected to raise their rates by as much 15% in the upcoming contract renegotiation cycle with health insurers and their employer sponsors.

"In the US, it's well known that health care costs rise year over year, greater than just about any other segment globally," said Matthew Drakeley (pictured), VP of accident and health specialty markets at QBE North America.

"If we look at the last 20 years, the rise in the cost of healthcare has typically outstripped general inflation, often even double the rate of general inflation."

According to Drakeley, healthcare inflation lags general inflation, which means the pain of the increasing cost of goods will soon be felt by healthcare companies.

"I think we're going to get back to a period where medical inflation is going to be greater than general inflation," the VP said.

"The impact of medical costs is going to be more profound in the coming 12 to 24 months. Many deals with hospitals are pre-negotiated for a multi-year period with insurance companies and payers. Those deals are going to get renegotiated in an entirely different climate than it had been the prior cycle."

Mid-sized firms reeling from high medical care costs

Medium-sized companies, which have higher employee benefits outlays than smaller firms but fewer resources than large corporations, are deeply concerned with the increasing costs of medical care services.

According to QBE's mid-sized company risk report in 2022, executives ranked medical cost inflation and rising employee benefits costs among their top concerns.

"Brokers should be aware that there's going to be upward pressure on that cost of care beyond what they typically seen," said Drakeley.

While some of the cost increases are driven by economic pressures, developments in medical technology are also making health plans more expensive. Sophisticated treatments that are being rolled out in the marketplace, such as cell and gene therapy treatments, are adding to claims costs, which drive up rates.

How can companies gain control over ballooning health care expenses? Drakeley pointed out a relatively untapped strategy: self-funding.

Companies can self-fund their health insurance plans and use medical stop-loss coverage to guard against unexpected costs.

Stop-loss insurance enables a business to set a cap on expenses for employee medical bills. It ensures that catastrophic claims or an increased number of claims don't overwhelm a self-insured health plan.

"If you're going with a fully insured product, you're going to ride the general wave of increasing costs in the marketplace. Insurance companies will always typically increase the cost of coverage year over year, so [businesses] are just not going to get the benefit," Drakeley explained.

Captives and stop-loss coverage as a solution to rising medical care costs

Another strategy would be to use medical stop-loss insurance within a captive to gain even more control over costs. Companies can form their own captive or join one owned by multiple companies, called a group captive.

Through group captives, smaller to mid-sized firms can pool their buying power and build self-funded health insurance programs.

"Group captives might be more ideal because you can join a larger risk pool and spread your risk while still being self-funded," he said.

"This gives you a negotiating power with your insurer and the ability to potentially retain some of the profits within the captive structure that could accrue back to you."

Companies can also choose two different approaches to their health program:

- Bundling – using a single healthcare provider that provides all the administration services and insurance.
- Unbundling – contracting specialized firms to manage different parts of a plan.

"If you unbundle, you're adding another layer of control," said Drakeley. "In an unbundled environment, you can integrate different solutions into your program to help mitigate cost increases and potentially reduce your healthcare costs over time."

More and more employers are looking at group captives as their preferred solution to purchase medical stop-loss insurance.

"The growth of captives within Fortune 500 and global companies has been significant over the last five years. The market trend is moving toward putting more insurable risk for employer groups in a captive," Drakeley said. "There's no indication that that trend will subside."

DO THIS TO PROTECT YOUR BONES

Many people with osteoporosis don't know they have it until they break a bone. If you think you may be at risk, **talk with your doctor about getting a bone mass measurement.** This test can help prevent or detect osteoporosis at an early stage, when treatment works best.

Medicare Part B covers a bone mass measurement once every 24 months (more often if medically necessary) — at no cost to you when your doctor orders it.

Along with getting tested, **here are more ways to keep your bones strong:**

- Eat foods that support bone health, like leafy green vegetables and fish
- Exercise by doing weight-bearing activities, like strength training or hiking
- Don't smoke, and limit your alcohol consumption

Remember: Your risk of osteoporosis grows as you get older. 1 in 5 women and 1 in 20 men over the age of 50 will develop osteoporosis, so it's important to take steps early to help protect your bones!

PUBLIC HEALTH EMERGENCY FOR COVID-19 ENDS ON MAY 11, 2023

The Public Health Emergency for COVID-19 ends on May 11, 2023. What does this mean for you?

- Medicare will continue to cover **COVID-19 vaccines** at no cost.
- You'll be able to get **COVID-19 PCR and antigen tests** with no out-of-pocket costs when ordered by a doctor.
- **Expanded telehealth services** will continue through December 31, 2024.

After May 11, 2023, Medicare will no longer cover or pay for over-the-counter (OTC) COVID-19 tests. If you're enrolled in a Medicare Advantage Plan, you may have more access to tests depending on your benefits. Make sure to check with your plan.

MENTAL HEALTH MATTERS

It's just as important to take care of your mental health as it is to take care of your physical health.

Medicare covers a number of services to support you, including outpatient mental health services like depression screening, individual and group psychotherapy, and family counseling. You may be able to access many of these services via **telehealth.**

Medicare Part B (Medical Insurance)

Part B covers certain doctors' services, outpatient care, medical supplies, and preventive services.

helps pay for these outpatient mental health services:

- One depression screening per year. The screening must be done in a primary care doctor's office or primary care clinic that can provide follow-up treatment and referrals.
- Individual and group psychotherapy with doctors (or with certain other licensed professionals, as the state where you get the services allows).
- Family counseling, if the main purpose is to help with your treatment.
- Testing to find out if you're getting the services you need and if your current treatment is helping you.
- Psychiatric evaluation.
- Medication management.
- Certain prescription drugs that aren't usually "self administered" (drugs you would normally take on your own), like some injections.
- Diagnostic tests.
- Partial hospitalization.
- A one-time "Welcome to Medicare" preventive visit. This visit includes a review of your possible risk factors for depression.
- A yearly "Wellness" visit. Talk to your doctor or other health care provider about changes in your mental health since your last visit.

Part B also covers outpatient mental health services for treatment of substance abuse.

Dental Coverage
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