

Considerations for better health and wealth planning

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According to the Milliman Medical Index (MMI), healthcare costs for a hypothetical American family of four with an average employer-sponsored preferred provider organization (PPO) plan grew at 10% a year in the early 2000s and, more recently, at 3.8% from 2018 to 2019.¹

Medical expenses make up a significant portion of retirement living, and the costs of long-term care (LTC) are going up. As a result, people are looking for ways to protect their long-term health and wealth, and they expect their financial advisers to create more comprehensive financial plans that will help them achieve this goal.

How can financial advisers provide clients with better financial planning solutions and stand out from the competition? The following four foundational components will enable financial organizations to better support financial advisers in providing more targeted retirement planning solutions, which will help to improve their clients' financial well-being.

1. **Data on healthcare costs.** Retirement planning projections depend on having access to accurate and comprehensive data. No portfolio is complete unless it considers the specific situations of a retiree, such as clients retiring early versus waiting until reaching age 65 or older. Accessing the proper data will allow financial advisers to calculate retirement plans that include pre-Medicare and Medicare long-term cost trends, as well as premiums and out-of-pocket costs. With this foundational data, financial advisers can analyze the options to identify the appropriate insurance that best suits an individual's needs, whether it's short-term coverage, long-term care, ancillary policies, or Medicare Advantage insurance products.

2. **Future cost projections.** Proper retirement planning requires projections of future cost scenarios, because costs and quality of life change in the years and decades following retirement. It is essential to be able to create projections of an individual's annual estimated health costs, for the duration of retirement, to address appropriate income shortfalls before and after retirement. Financial advisers can create stochastic models, a method for running many simulations, to plan for the unexpected in retirement.
3. **Connections to different conditions.** Knowing the average commercial costs of medical care over time is key to developing retirement plans. However, clients might have higher propensities for one medical condition over another. That is why it is important for financial advisers to access data on the costs of specific medical conditions. For example, diabetic patients have annual medical costs that are approximately 2.3 times higher than patients without diabetes.² Being able to plug in more specific costs will help financial advisers to create more realistic and targeted retirement plans. Please refer to our initial paper, "Understanding the Connections Between Health and Financial Wellness"³ for more details.
4. **Delivery through API.** Financial advisers should be able to easily integrate health data into their existing solutions. To accomplish this goal, application programming interfaces (APIs) make it easy to programmatically support the delivery of health cost data in the desired format for a consistent user experience. APIs enable organizations to develop and create faster and better-positioned retirement products to stand out from the competition.

¹ Girod, Christopher S., Hart, Susan K., Liner, David M., Snook, Thomas D., & Weltz, Scott A. (July 25, 2019). 2019 Milliman Medical Index. Retrieved November 14, 2019, from <http://www.milliman.com/mmi>.

² American Diabetes Association. The Cost of Diabetes. Retrieved November 14, 2019, from <https://www.diabetes.org/resources/statistics/cost-diabetes>.

³ Boschert, J., Jennings, J., & Schmidt, R. (2019). Understanding the Connections Between Health and Financial Wellness. Milliman White Paper. Retrieved January 7, 2020, from <http://www.milliman.com/insight/2019/Understanding-the-connections-between-health-and-financial-wellness/>.

By using these resources to provide clients with better health and wealth planning, financial planners can realize four key advantages.

1. **Better protection and insurance.** Many people have purchased insurance products that will not meet their future needs. They have gaps in their retirement portfolios, which means that they could run out of money due to improper protection against unexpected medical or pharmacy costs. Conducting a thorough analysis of a client's future retirement needs will help financial advisers to offer more appropriate insurance products that will better protect clients' financial futures.
2. **Better tax planning.** Some people do not take advantage of all available options to reduce their future tax expenditures. Taxes can take a large portion of an individual's retirement funds if the portfolio is improperly developed for particular situations. Creating smarter tax strategies will help financial advisers to protect a client's wealth. For example, a financial adviser can implement strategies that let their clients avoid income when withdrawing funds from those accumulated in tax-advantaged investment vehicles, which in turn enables them to qualify for subsidies in Patient Protection and Affordable Care Act (ACA) or Medicare Advantage markets.
3. **More sound financial advice.** Financial advisers can sell a product or they can sell a customized solution. When doing the latter, they are better able to meet their clients' financial needs. Providing sound financial advice requires access to accurate data that is better integrated with an individual's specific situation. Financial advisers will not have to make assumptions to create the ideal portfolio or provide suitable insurance options. Advisers will be better informed, ultimately making them better advisers in general. Advisers will also save time when creating retirement plans, because they will have instant access to vital information.

4. **Happier clients.** The financial adviser's clients will be happier with the performance of their plans because the adviser will find the best financial plans for each one. Clients will know their financial advisers have met their needs and considered all the important factors, so they will stay with the adviser and refer their families and friends. Financial advisers will also be happier because they will be able to provide clients with more sound financial advice. Financial advisers will also be more productive, provide more accurate projections, and relieve their clients' pain points.

Conclusion

Providing financial advisers with more comprehensive and targeted healthcare data will help them to improve the accuracy of their financial projections and retirement planning offerings. It is not enough to use simple back-of-the-envelope techniques when financial planners are trying to answer a client's important question of "Will I have enough?" Sophisticated data, more accurate projections, important tax treatments, and seamless integration all play a key role in providing clients the best financial projections.



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