

Two actions to tackle health care costs in retirement

4Q 2019

IN BRIEF

Many people do not think about how much health care costs when they are working because they are covered by employer-sponsored health insurance. But that's the time to start preparing for how you will meet these costs when you don't have a regular paycheck. Here are five things to know and two actions you can take to tackle health care costs in retirement:

1. The government and your insurance won't cover everything.
2. An aging population will put pressure on the funding of government systems, which means you may be more reliant on private care.
3. Health care cost inflation outpaces general inflation, which will make health care increasingly more expensive.
4. The use of health care tends to increase with age.
5. Counterintuitively, a long and healthy life may result in higher lifetime health care spending since there are more years of care to fund.

Action items:

1. Factor health care expenses into your overall retirement plan.
2. Invest a portion of your portfolio in growth-oriented mutual funds to keep up with increasing health care costs as you age.



Wina Appleton, CFA
Asia Retirement Strategist

Health care is one of the biggest expenses in retirement and the toughest to budget. How long will you live? What kind of care will you need? Where will prices be decades from now? If your insurance can't cover everything, how much will you need to fork out of your own pocket? What can you do to support your future health care expenses? Even though engaging in healthy behaviors may keep our average costs lower over time, we cannot know what medical issues we may confront or how long we will live. It is therefore not surprising that in a survey¹ we conducted in Hong Kong, 76% of respondents were worried that health care costs in retirement will put a big strain on their retirement savings.

¹Source: J.P. Morgan Asset Management, "J.P. Morgan Hong Kong Investor Confidence Index and Retirement Survey," December 2018.

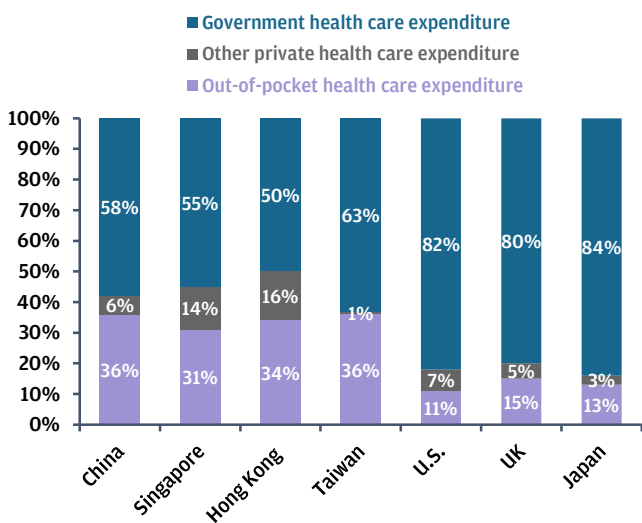
To prepare, here are five things to know about health care costs in retirement and two actions you can take:

Five things to know about health care costs in retirement


1. The government and your insurance won't cover everything: The use of government systems and medical insurance plans may still cause you to incur out-of-pocket expenses, especially if you experience a significant health issue. Also, health insurance premiums paid today may not provide enough coverage for the future. Across China, Singapore, Hong Kong and Taiwan, out-of-pocket health care costs can account for a significant percentage of total health care costs as compared to the U.S., United Kingdom and Japan (see **Exhibit 1**). In addition, the elderly are more likely to pay a greater proportion of total costs out-of-pocket because of the limited availability of elderly health care insurance products².

Out-of-pocket health care costs can account for a significant percentage of total health care costs

EXHIBIT 1: TOTAL HEALTH CARE EXPENDITURE BREAKDOWN BY FINANCING SOURCES



Source: Hong Kong Food and Health Bureau (Hong Kong, 2016), Ministry of Health and Welfare³ (Taiwan, 2016), World Health Organisation⁴ (China, Singapore, U.S., UK, Japan, 2016).



A study in Singapore in 2017 found that major health shocks can lead to increases in health care spending by as much as 79%, and the heightened spending is observed up to six months after the shock⁵.

According to the Vice Chairman of the National Committee of the Chinese People's Political Consultative Conference, the average treatment costs of common cancer cases in China was 2.1 times that of the average urban resident's annual disposable income in 2014⁶. This puts a tremendous financial burden on cancer patients and their families, especially given the fact that the incidence of cancer increases with age.



2. An aging population will put pressure on the funding of government systems, which means you may be more reliant on private care:

In just 30 years, more than one in four people in Asia will be over 60 years old, doubling their share of the total population from 12% to 24%⁷. This rise in the elderly population will increase health care spending, which will create a massive burden on the government and public health budgets in the coming decades. This could also result in longer waiting times at public hospitals. As a result, you may have to use more private care.



Data collected by Hong Kong Hospital Authority showed that the waiting time for stable new cases at specialist out-patient public clinics could be over three years. As an example, the data showed the longest waiting time for orthopedics was reported at 195 weeks⁸. This can have significant implications for older individuals when knee and hip replacements can be more common.

²Source: Asia Pacific Risk Center, "Advancing into the golden years - Cost of health care for Asia Pacific's elderly," 2016.

³For Taiwan, out-of-pocket payments (OOPs) include reimbursements from private health insurance since such reimbursements are generally made retrospectively.

⁴Out-of-pocket payments are defined as direct payments made by individuals to health care providers at the time of service use. This excludes any prepayment for health services; for example, in the form of taxes or specific insurance premiums or contributions and, where possible, net of any reimbursements to the individual who made the payments. Other private health expenditures include voluntary health insurance.

⁵Source: Cheng, T., Vaithianathan, R. and Li, J., "Monthly Spending Dynamics of the Elderly Following a Health Shock: Evidence from Singapore," July 2018.

⁶Source: National Committee of the Chinese People's Political Consultative Conference website, February 27, 2019.

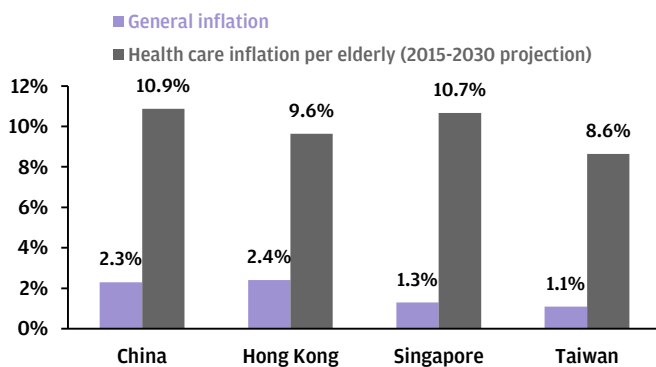
⁷Source: United Nations, Department of Economics and Social Affairs, Population Division (2019). World Population Prospects: The 2019 Revision.

⁸Source: Hong Kong Hospital Authority website, 1 July 2018 - 30 June 2019. The longest (90th percentile) waiting time implies that appointments are earlier than the indicated time in 90% of the new case bookings.

3. Health care cost inflation outpaces general inflation, which will make health care increasingly more expensive:

Health care inflation is much higher than general inflation (see **Exhibit 2**), which means that health care expenses will rise faster than other expenses. This health care inflation is primarily driven by advancements in medical technology such as new therapies and drugs. Of course, an aging population that increases demand for the same supply and a changing disease profile also have roles to play here⁹. A prudent approach to retirement planning should anticipate higher increases in health care cost.

Expect health care inflation to outpace general inflation
EXHIBIT 2: HEALTH CARE INFLATION VERSUS GENERAL INFLATION



Source: Asia Pacific Risk Center, 2016; International Monetary Fund, World Economic Outlook Database, April 2019; J.P. Morgan analysis. Health care inflation is based on higher end projections of health care cost per elderly in 2030. The health care cost takes into account government spending and not just out-of-pocket expenses.*

4. The use of health care tends to increase with age:

Retirees tend to consume significantly more health care as they get older. A U.S. study stated approximately half of lifetime medical expenditure are incurred after the age of 65¹⁰. Health care costs will become a significant and growing part of your total expenses in retirement (see **Exhibit 3A & 3B**).

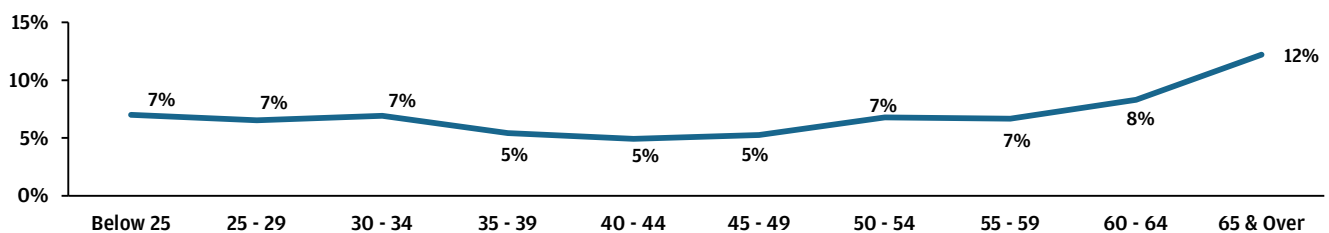
In a survey we conducted in Hong Kong, 76% of participants indicated they are worried that health care will become their biggest retirement expense, and 67% are worried about the cost that will be incurred by long-term care¹¹!



5. A long, healthy life may result in higher lifetime health care spending since there are more years of care to fund:

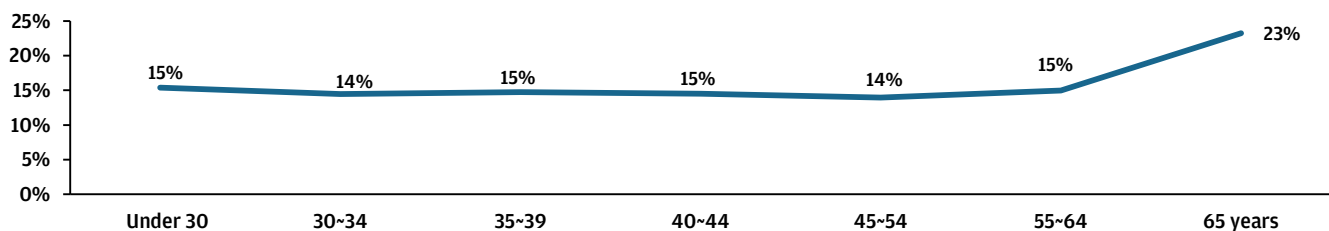
Depending on your family medical history and lifestyle, you may live longer than average—and incur expenses over more years in retirement. Counterintuitively, even if you are healthy and your annual health care costs are lower, the longer you live the higher your aggregate lifetime health care expenses may be since there are more years of care to fund. Importantly, more intensive use of care may be decades away when prices are higher, resulting in high lifetime costs. Women typically live longer than men, so they may face more years to fund as well as a greater likelihood of needing to pay for long-term care.

Health care costs tend to increase with age
EXHIBIT 3A: SINGAPORE HEALTH CARE COST EXPENDITURES AS % TOTAL EXPENDITURES



Source: Department of Statistics Singapore, "Household Expenditure Survey," 2017-2018.

EXHIBIT 3B: TAIWAN HEALTH CARE COST EXPENDITURES AS % OF TOTAL EXPENDITURES



Source: National Statistics, Republic of China (Taiwan), "The Survey of Family Income and Expenditure," 2018.

⁹Source: Nomura Global Markets Research, "Asia Pacific hospitals: Technology investments to drive growth," 2018.
¹⁰Source: Alemayehu, B. and Warner, K., "The lifetime distribution of health care costs" Health Services Research 39 (3): 627-42, 2004.
¹¹Source: J.P. Morgan Asset Management, "J.P. Morgan Hong Kong Investor Confidence Index and Retirement Survey," December 2018.

Two actions you can take to tackle health care costs in retirement

1. Factor health care expenses into your overall retirement plan

As you build your retirement plan, factor in health care costs while bearing in mind all the aforementioned considerations. We suggest consulting with a financial advisor to conduct a financial analysis, so you can clearly see how medical costs impact your overall financial picture. Do you have your basic insurance needs covered? Consider your options as early as feasible, since coverage may be more expensive or unavailable if you wait. Given that your insurance may not cover everything, it is important to supplement your insurance with savings and investment strategies to support your future health care expenses.

2. Invest a portion of your portfolio in growth-oriented mutual funds to keep up with increasing health care costs as you age

Given increasing costs due to both health care specific inflation and increased use of care with age, it is vital to invest over the long term for growth regardless of where you are in your retirement journey. That involves the design of investment portfolios aimed at outpacing health care cost increases and bolstering funds for unexpected health care expenses. As you shift into retirement, it is natural to prioritize income, but growth is equally important to keep up with the growth of health care costs. This means investing a portion of your portfolio in equities for the long term. Growth-oriented mutual funds could be leveraged to capture growth opportunities efficiently to help cover future health care expenses.

Conclusion

We can engage in healthier behavior that may lower our future health care bills. Still, we cannot know what medical issue we may confront or how long we will live. We do know that older people tend to use more health care than their younger counterparts and that health care expenses will be subject to a higher inflation. This makes it critical to talk to a financial advisor to factor health care expenses in to your overall retirement plan, and invest a portion of your portfolio in growth-oriented mutual funds to keep pace with the rising costs of health care.



*Disclaimer

Marsh & McLennan Companies Asia Pacific Risk Center, 2016.

The sensitivity analysis conducted for this study varies each of the key modelling cost drivers to project the elderly health care expenditure: (1) demographic effects, (2) inflation rates, (3) long-term care utilization and (4) medical trend, determining to what extent these results are sensitive to substantial but plausible variations in any parameters, as well as judging the robustness of the model conclusion.

- When projecting future population, demographers often generate a series of high, median and low projections, each of which assumes different fertility and mortality rates. In the modelling study, the median values projected by the UN Population Division are chosen to reflect the current conditions, while the upper and lower 95% confidence interval values around the median are selected to reflect the possible range of future projections.
- Besides projecting future population growth rates, future inflation rates or any other economic variables are often estimated with uncertainty and may not be known with great precision. Hence, similar high and low projections calculated from the upper and lower 95% confidence level values are used to understand the potential variance in the outcome should the estimated inflation rates deviate from expectations.
- Variable-specific assumptions are applied to LTC coverage in the sensitivity analysis to better assess the robustness of the modelling outcome. In this sensitivity analysis, the low projection assumes no additional costs injected into developing LTC infrastructure or encouraging LTC utilization, and that the LTC coverage rate remains at its 2015 levels through to 2030 for every market modelled. On the other hand, in the high projection sensitivity analysis, we assume every market aspires to provide the same level of LTC coverage as Australia, the highest provision of LTC concluded in this study, and are able to financially achieve this by 2030.
- In the dataset used in this study, the medical trend variable takes on the 2016 expected medical inflation rates surveyed by MMB and are assumed to remain constant throughout the modelling period. Similarly to projecting future population growth and inflation rates, high and low expected medical trend values assume the upper and lower 95% confidence intervals values. Mercer Marsh Benefits, 2016. Medical Trends around the World 2016. Global: Mercer Marsh Benefits.

NEXT STEPS

For additional information, please contact your J.P. Morgan Asset Management representative.

For the purposes of MiFID II, the JPM Market Insights and Portfolio Insights programs are marketing communications and are not in scope for any MiFID II / MiFIR requirements specifically related to investment research. Furthermore, the J.P. Morgan Asset Management Market Insights and Portfolio Insights programs, as non-independent research, have not been prepared in accordance with legal requirements designed to promote the independence of investment research, nor are they subject to any prohibition on dealing ahead of the dissemination of investment research.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be taken as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit and accounting implications and determine, together with their own professional advisers, if any investment mentioned herein is believed to be suitable to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yields are not reliable indicators of current and future results.

J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide.

To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our Company's Privacy Policy (<https://www.jpmorgan.com/global/privacy>). For further information regarding our local privacy policies, please follow the respective links: Australia (<https://www.jpmorgan.com/country/AU/EN/privacy>), EMEA (<https://am.jpmorgan.com/us/en/asset-management/gim/mod/legal/external-privacy-policy>), Japan (<https://www.jpmorganasset.co.jp/wps/portal/Policy/Privacy>), Hong Kong (<https://am.jpmorgan.com/hk/en/asset-management/per/privacy-statement/>), Singapore (<http://www.jpmorganam.com.sg/privacy>) and Taiwan (<https://www.jpmrich.com.tw/wps/portal/Footer/Privacy>).

This communication is issued by the following entities: in the United Kingdom by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other European jurisdictions by JPMorgan Asset Management (Europe) S.à r.l.; in Hong Kong by JPMorgan Asset Management (Asia Pacific) Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited; in Singapore by JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), or JPMorgan Asset Management Real Assets (Singapore) Pte Ltd (Co. Reg. No. 201120355E), this advertisement or publication has not been reviewed by the Monetary Authority of Singapore; in Taiwan by JPMorgan Asset Management (Taiwan) Limited; in Japan by JPMorgan Asset Management (Japan) Limited which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type II Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanto Local Finance Bureau (Financial Instruments Firm) No. 330"); in Australia to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Cth) by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919); in Brazil by Banco J.P. Morgan S.A.; in Canada for institutional clients' use only by JPMorgan Asset Management (Canada) Inc., and in the United States by J.P. Morgan Institutional Investments, Inc., member of FINRA; J.P. Morgan Investment Management, Inc. or J.P. Morgan Alternative Asset Management, Inc.

In APAC, distribution is for Hong Kong, Taiwan, Japan and Singapore. For all other countries in APAC, to intended recipients only.

Copyright 2019 JPMorgan Chase & Co. All rights reserved.

Material ID: 0903c02a8270ddfb