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FOR IMMEDIATE RELEASE

Aug. 25, 2009

Americans dramatically underestimate health care costs in retirement, First Command reports

First Command Financial Behaviors Index™ reveals that a majority of respondents are concerned about costs, but few are adequately planning and saving

FORT WORTH, Texas – Amid growing protests from opponents of health care reform, the majority of middle-class Americans are expressing concern about paying for medical costs during retirement – and dramatically underestimating the financial burden they’ll be expected to bear.

The July survey of the First Command Financial Behaviors Index™ reveals that 72 percent of Americans are at least somewhat concerned about health care costs in retirement, with those closest to retirement expressing the most concern. Respondents predict that they will need about \$33,000 above traditional retirement savings to cover health care costs during retirement. While significant, this estimate is only a fraction of the \$166,000 in out-of-pocket expenses estimated for someone retiring today and living to age 100.

“As difficult as it is to say, Americans have every reason to be concerned about health care costs in retirement,” said Scott Spiker, CEO of First Command Financial Services, Inc. “As government programs — including Social Security and Medicare — become increasingly stretched to keep up with the growing population, retired Americans should be prepared to bear more of the financial burden. That’s why it’s important to take health care expenses into account now as you plan for your retirement.”

While Medicare covers many medical costs for retirees, it does not cover all financial needs. Current premiums for Medicare Part B, the average for Medicare Part D and the maximum out-of-pocket drug costs before Medicare Part D begins paying 95 percent of drug costs total \$5,842 per year. Assuming a five percent return on savings and an average premium increase of 3.7 percent (the Part B increase rate through 2016), an individual retiring at age 65 today and living to age 100 would need an estimated \$166,000 to meet these expenses. For a couple, the figure doubles to \$332,000.

Despite the fact that many Americans are concerned about the increasing costs of health care and their ability to pay for those costs in retirement, less than one-third of respondents include health care costs as part of their retirement planning. Among those, half save less than \$100, 36 percent save between \$100 and \$300, and 14 percent save more than \$300.

Among non-retired Americans with a written financial plan from a financial advisor, 41 percent include health care costs as part of their retirement planning, nearly double the percentage of those without a financial plan.

“Whether retirement is five years away or 50 years away, Americans must take into account the costs associated with health care during retirement,” Spiker said. “Medicare and Social Security deficits, combined with higher health care costs and longer retirements, are poised to create a perfect storm. Ignoring the problem won’t make it go away, and Americans shouldn’t rely on government to solve these issues. Financial advisors have the tools and expertise to help consumers determine how much to set aside to cover medical expenses and prepare now for the standard of living they desire in their retirement years.”

About the First Command Financial Behaviors Index™

Compiled by Sentient Decision Science, LLC, the First Command Financial Behaviors Index™ assesses trends among the American public's financial behaviors, attitudes and intentions through a monthly survey of approximately 1,000 U.S. consumers aged 25 to 70 with annual household incomes of at least \$50,000. Results are reported quarterly. The margin of error is +/- 3.1 percent with a 95 percent level of confidence. www.firstcommand.com/research

About Sentient Decision Science, LLC

Sentient Decision Science was commissioned by First Command to compile the Financial Behaviors Index™. Sentient is a full-service market research firm with special vertical expertise within the financial services industry. Sentient specializes in advanced research design and statistical analysis of behavioral and attitudinal data.

About First Command

First Command Financial Services and its subsidiaries, including First Command Bank and First Command Financial Planning, assist American families in their efforts to build wealth, reduce debt and pursue their lifetime financial goals and dreams—focusing on consumer behavior as the first and most powerful determinant of results. Through personalized financial plans that emphasize accumulating wealth while reducing risk, First Command Financial Advisors have established lasting relationships with hundreds of thousands of client families since 1958.

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