

Health Law Cut Some Health Costs in Retirement, But Retirees Will Need Big Savings

December 01, 2010 | Targeted News Service

WASHINGTON, Nov. 30 -- Employee Benefit Research Institute issued the following news release:

Even though the new health reform law will reduce some health costs in retirement for many people, retirees will still need a significant amount of savings to cover their out-of-pocket health expenses when they retire, according to a report released today by the nonpartisan Employee Benefit Research Institute (EBRI). Women in particular will need more savings than men because they tend to live longer.

For instance, EBRI finds that men retiring in this year (2010) at age 65 will need anywhere from \$65,000- \$109,000 in savings to cover health insurance premiums and out-of-pocket expenses in retirement if they want a 50-50 chance of being able to have enough money; to improve the odds to 90 percent, they'll need between \$124,000-\$211,000.

Women retiring this year at 65 will need even more: between \$88,000-\$146,000 in savings if they are comfortable with a 50 percent chance of having enough money, and \$143,000-\$242,000 if they want a 90 percent chance.

These estimates are for Medicare beneficiaries age 65 and older: Anyone retiring early, before age 65, would need even more.

The new EBRI analysis details how much savings an individual or couple will need to cover Medicare and out-of-pocket health care expenses in retirement, updating earlier EBRI simulation results from 2008. Some prior estimates have been significantly revised downward as a result of changes to Medicare Part D (prescription drug) cost sharing that will be phased in by 2020 due to the recently enacted health reform law, the Patient Protection and Affordable Care Act of 2010 (PPACA).

However, EBRI finds that retirees will continue to need a substantial amount of savings to cover their health care expenses in retirement, and that uncertainty related to health care use, prescription drug use, and longevity will still play a major role in planning for retiree health care. Results are shown by the desired level of probability (50, 75, and 90 percent) of having enough savings to cover health costs in retirement.

The full report is titled "Funding Savings Needed for Health Expenses for Persons Eligible for Medicare," and is published in the December 2010 EBRI Issue Brief, online at www.ebri.org

"Because employers are continuing to scale back retiree health benefits, and policymakers may soon begin to address Medicare's funding shortfall, more of the financial costs of health care will be shifted to Medicare beneficiaries in the future," said Paul Fronstin, director of EBRI's Health Research and Education Program, and a co-author of the report.

Dallas Salisbury, EBRI CEO and also a co-author of the report, noted that "many workers are generally unprepared for both health care expenses in retirement and retirement expenses. In fact, many individuals will need more money than the amounts cited in this report," since the analysis deliberately does not factor in the savings needed to cover long-term care expenses or the fact that many people retire prior to becoming eligible for Medicare.

EBRI notes that in 2007 (the most recent data available), Medicare covered 64 percent of the cost of health care services for Medicare beneficiaries age 65 and older, while retirees' out-of-pocket spending accounted for 14 percent. Private insurance and various other government programs covered the remaining 12 percent of costs.

Among the key findings of the EBRI analysis:

- Single men: Men retiring at age 65 in 2010 will need anywhere from \$65,000 to \$109,000 in savings to cover health insurance premiums and out-of-pocket expenses, if they want an average (50-50) chance of being able to have enough money. If they want a 90 percent chance of having enough to cover these expenses, they'll need between \$124,000 to \$211,000.
- Single women: Women retiring at age 65 in 2010 will need anywhere from \$88,000 to \$146,000 in savings to cover health insurance premiums and out-of-pocket expenses for a 50 percent chance of having enough money, and \$143,000 to \$242,000 if they prefer a 90 percent chance.
- The near-elderly: Persons currently at age 55 will need even greater savings when they turn 65 in 2020. The needed savings for men retiring in 2020 range from \$111,000 to \$354,000, while needed savings for women range from \$147,000 to \$406,000 (in 2020 dollars), depending on their source of health insurance coverage to supplement Medicare, any employer subsidies, prescription drug use, and their savings goal related to their comfort level with having a 50 percent, 75 percent, or 90 percent chance of having enough savings to cover health insurance premiums and out-of-pocket health care expenses in retirement.