

**FOR IMMEDIATE RELEASE:** June 10, 2009

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**New Research from EBRI:**

## **New Estimates Update Retiree Health Savings Needs**

WASHINGTON—The nonpartisan Employee Benefit Research Institute (EBRI) today published a newly updated set of estimates of the amount of money individuals and couples will need to cover certain health care expenses in retirement. The new estimates attempt to provide current information to allow men, women, and couples deal with the financial consequences of longevity and investment risk, as well as the various types of medical care coverage available when they reach age 65.

The new estimates, published in the June 2009 *EBRI Notes*, use a Monte Carlo (random) simulation model to estimate the amount of savings needed to cover health insurance premiums and out-of-pocket health care expenses in retirement. The full report is available online at [www.ebri.org](http://www.ebri.org)

Separate estimates are presented for men, women, and couples who supplement Medicare with employment-based retiree health benefits, and for those who use a combination of individual health insurance through Medigap and Medicare Part D outpatient drug coverage.

In each case, estimates are presented for individuals and couples to determine the assets needed to cover retiree health costs 50 percent, 75 percent, and 90 percent of the time. The estimates vary widely, depending on how much risk the individual or couple is willing to assume. For example, the amount of money needed to cover these costs under “average” conditions (the 50 percent figure) is much smaller than the 90 percent figure; however, in the 50 percent case, assets will be insufficient half of the time, as opposed to only 10 percent of the time under the higher figure.

The new estimates reflect increases in health care costs over the past year. For those seeking a median (50 percent) chance of having enough money for health care in retirement, these estimates are about 9 percent higher than a year ago for men and married couples, and 16 percent higher for single women.

Here are the results:

**Employment-based benefits, with premiums subsidized by a former employer:**

This example assumes a 65-year-old individual supplements Medicare with retiree health benefits from a former employer and *that the premiums are subsidized* by a former employer. The savings needed are:

**Man:** A man would need \$68,000 in current savings to have a 50 percent chance of having enough money to cover health care expenses in retirement, or \$134,000 in current savings for a 90 percent chance of having enough to cover retiree health costs. (The comparable 2008 numbers were \$64,000 and \$122,000.)

**Woman:** A woman would need current savings of \$98,000 to have a 50 percent chance of having enough money for retiree health expenses, or \$164,000 to have a 90 percent chance of having enough to cover retiree health costs. The numbers are higher for women because of their greater longevity. (The comparable 2008 numbers were \$86,000 and \$140,000.)

**Married couple:** A married couple would need current savings of \$165,000 to have a 50 percent chance of having enough money for retirement health costs, or \$256,000 for a 90 percent chance. (The comparable 2008 numbers were \$154,000 and \$235,000.)

**Employment-based benefits, with premiums not subsidized by a former employer:**

This example assumes a 65-year-old individual supplements Medicare with retiree health benefits from a former employer but the *premiums are not subsidized* by a former employer. The savings needed are:

**Man:** A man would need \$111,000 in current savings to have a 50 percent chance of having enough money to cover health care expenses in retirement, or \$217,000 in current savings for a 90 percent chance of having enough to cover retiree health costs. (The comparable 2008 numbers were \$102,000 and \$196,000.)

**Woman:** A woman would need current savings of \$159,000 to have a 50 percent chance of having enough money for retiree health expenses, or \$266,000 to have a 90 percent chance of having enough savings to cover retiree health costs. Again, the numbers are higher for women because of greater longevity. (The comparable 2008 numbers were \$137,000 and \$224,000.)

**Married couple:** A married couple would need savings of \$268,000 to have a 50 percent chance of having enough money for retirement health costs, or \$414,000 for a 90 percent chance. (The comparable 2008 numbers were \$246,000 and \$376,000.)

**Medicare, with individually purchased supplemental insurance:**

The example assumes 65-year-old individuals who do not have employment-based retiree health benefits and instead supplement Medicare with the individually purchased Medigap (Plan F) and Medicare Part D outpatient drug coverage. The estimates note that projections of the savings needed to cover out-of-pocket drug expenses are subject to a number of variables. The estimates presented in the *Notes* show the differences for individuals and couples with a three levels of prescription drug use: 50<sup>th</sup> percentile (median drug expenses), 75<sup>th</sup> percentile, and 90<sup>th</sup> percentile (high).

**Man:** A man with median (50<sup>th</sup> percentile) drug expenditures would need \$86,000 in current savings to have a 50 percent chance of having enough money to cover health care expenses in retirement, or \$177,000 for a 90 percent chance of having enough to cover retiree health costs. At the 90<sup>th</sup> percentile level of drug spending, a man would need \$378,000 for a 90 percent chance of having enough money to cover retiree health costs. (The comparable 2008 numbers were \$79,000, \$159,000, and \$331,000)

**Woman:** A woman with median (50<sup>th</sup> percentile) drug expenditures would need current savings of \$125,000 for a 50 percent chance of having enough money for retiree health expenses, or \$221,000 for a 90 percent chance of having enough money. Again, the numbers are higher for women because of their greater longevity. At the 90<sup>th</sup> percentile level of drug spending, a woman would need \$450,000 to have a 90 percent chance of having enough money to cover retiree health costs. (The comparable 2008 numbers were \$108,000, \$184,000, and \$390,000.)

**Married couple:** A married couple, both with median (50 percentile) drug expenses would need current savings of \$210,000 to have a 50 percent chance of having enough money for retirement health costs, or \$338,000 for a 90 percent chance. For those with very high drug expenses (in the 90<sup>th</sup> percentile), couples would need \$807,000 to have a 90 percent chance of having enough money. (The comparable 2008 numbers were \$194,000, \$305,000, and \$635,000).

As high as these estimates are, the *Notes* says notes that many individuals will need even more money than the amounts projected because the analysis does not factor in the savings needed to cover long-term care expenses, nor does it account for the fact than many individuals retire early (before they become eligible for Medicare). Also, these estimates do not include savings needed to cover any basic costs of living, such as food, clothing or shelter.

The *Notes* also contains estimates for individuals who retire at 65 in 2019 (meaning those currently age 55). Estimates for 2008 appeared in the May 2008 *EBRI Issue Brief*, available at [http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content\\_id=3933](http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=3933)

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