



# Issue Brief

No. 295

July 2006

## Savings Needed to Fund Health Insurance and Health Care Expenses in Retirement

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- This *Issue Brief* examines the cost of health insurance and health care expenses in retirement. It examines recent trends in private- and public-sector retiree health benefits and the impact of these trends on current and future retirees. It also presents options that retirees currently have to supplement the Medicare program, and provides estimates of how much those options will cost current and future retirees.
- **Individuals have always struggled with retirement income security:** Medicare covers only about one-half of retiree health expenses. Because the majority of workers would have never been eligible for employment-based retiree health benefits, individuals have always had primary responsibility for health care expenses in retirement not covered by Medicare. Furthermore, the minority of workers and retirees that were at some point eligible for benefits are experiencing erosion in those benefits.
- **Increasing burden on retirees:** This *Issue Brief* finds that a couple both age 65 today living to average life expectancy could need as much as \$295,000 to cover premiums for health insurance coverage and out-of-pocket expenses during retirement. A couple who lives to age 95 could need as much as \$550,000.
- **Options to pay for care:** Workers have a number of options available to pre-fund health insurance and out-of-pocket health care expenses in retirement. Each of these have advantages and disadvantages but none is completely adequate as currently structured to fully fund the level of savings needed to cover insurance premiums and out-of-pocket retiree medical expenses.
- **Health savings accounts:** Health savings accounts are one option workers can currently use to save money for health insurance premiums and out-of-pocket expenses in retirement. The main advantage of using an HSA for health care expenses in retirement is that the account is tax-advantaged, but HSAs have several drawbacks: availability and contributions are limited, HSA owners may tap their accounts to a significant extent for medical expenses during their working years; distributions for retiree health premiums are not allowed until age 65. Because contributions are limited, the maximum amount that an individual could save in his or her account is \$46,400 over 10 years.
- **The value of Medicare benefits:** The present value of lifetime Medicare benefits for a couple, both age 65 and retiring in 2005, was \$328,000. But this *Issue Brief* estimates that among non-institutionalized beneficiaries, Medicare covers only 51 percent of expenses associated with health care services. Individuals are in large part responsible for covering the other 49 percent. Meanwhile, Medicare faces insolvency in 2018 and it is likely that benefits will be reduced in the future. Hence, if Medicare benefits are reduced, a couple age 65 today may need significantly more than \$300,000 for health care expenses in retirement.