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New Research from EBRI:

Estimated Savings Needed for Retiree Health Continues Drop

WASHINGTON—The estimated savings that new Medicare beneficiaries will need to cover the costs of health care in retirement continues to drop as the growth of projected future health premiums slows, according to a new report by the nonpartisan Employee Benefit Research Institute (EBRI).

EBRI found that retiree health care savings targets declined 6 percent and 11 percent from 2012 estimates for a person or couple age 65. For a married couple, both with drug expenses at the 90th percentile throughout retirement, who wanted a 90 percent chance of having enough money saved for health care expenses in retirement by age 65, targeted savings fell from \$387,000 in 2012 to \$360,000 in 2013.

Because women have longer life expectancies than men, they generally need more savings than men to cover health insurance premiums and health care expenses in retirement post-65. EBRI found that in 2013, a man would need \$65,000 in savings and a woman would need \$86,000, if each had a goal of having a 50 percent chance of having enough money saved to cover health care expenses in retirement. To achieve a 90 percent chance, \$122,000 would be needed for a man and \$139,000 would be needed for a woman.

Paul Fronstin, director of EBRI's Health Research and Education program, and co-author of the report, noted there are several reasons for the decline in needed savings, chiefly that projections for future premium and health care cost increases have slowed substantially, as reported by the Congressional Budget Office and Centers for Medicare & Medicaid Services. Additionally, there have been slight drops in the projected growth rates of prescription drug coverage under the Medicare Part D program and as of 2013, one less year remains until the coverage gap in Part D phases down to 25 percent co-insurance.

The EBRI report notes that in 2010, Medicare covered 62 percent of the cost of health care services for Medicare beneficiaries age 65 and older, while out-of-pocket spending accounted for 12 percent, and private insurance covered 13 percent.

“Individuals can expect to pay a greater share of their costs out-of-pocket in the future because of the combination of the financial condition of the Medicare program and cutbacks to employment-based retiree health programs,” Fronstin noted.

EBRI’s analysis uses a Monte Carlo simulation model to estimate the amount of savings needed to cover health insurance premiums and out-of-pocket health care expenses in retirement. Estimates are presented for those who supplement Medicare with a combination of individual health insurance through Plan F Medigap coverage and Medicare Part D for outpatient prescription drug coverage. For each source of supplemental coverage, the model simulated 100,000 observations, allowing for the uncertainty related to individual mortality and rates of return on assets in retirement, and computed the present value of the savings needed to cover health insurance premiums and out-of-pocket expenses in retirement at age 65. These observations were used to determine asset targets for adequate savings to cover retiree health costs 50 percent, 75 percent, and 90 percent of the time. Estimates are also jointly presented for a stylized couple, both of whom are assumed to retire simultaneously at age 65.

The analysis, “Amount of Savings Needed for Health Expenses for People Eligible for Medicare: More Rare Good News,” is published in the October EBRI Notes, online at www.ebri.org

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