

For Immediate Release

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Savings Needed for Medicare Beneficiaries' Health Expenses Declines

New EBRI Study Finds that the Savings a Retired Couple Might Need for Medical Expenses Dips 8 to 10 Percent — However, Necessary Savings Are Still Significant at \$325,000

Washington, D.C. – May 28, 2020 — A study conducted by the Employee Benefit Research Institute (EBRI) finds an eight percent decline in the amount of savings that a 65-year-old man needs and a nine percent decline in the amount that a 65-year-old woman needs in order to have a 50/50 chance of sufficiently covering medical premiums and median prescription drug expenses in retirement. The decline is even greater at the 90th percentile: in 2020, both men and women need 10 percent less than in 2019. These are the biggest declines EBRI has seen since 2013, when needed savings declined between 6 and 11 percent.

Still, the amount of savings needed for these expenses are significant: for a 90 percent chance of having enough savings, the man needs \$130,000 and the woman needs \$146,000. For a 50 percent chance of covering these expenses, a man would need \$73,000 and a woman would need \$120,000.

Further, at the 50th percentile and 90th percentile, a couple would need \$168,000 and \$270,000 respectively. This represents an 8 percent and a 10 percent decline at the 50th and 90th percentiles respectively.

The report, **“A Bit of Good News During the Pandemic: Savings Medicare Beneficiaries Need for Health Expenses Decreases in 2020”** examines the savings needed to pay for premiums for Medicare Parts B and D and Medigap Plan G, as well as out-of-pocket spending for outpatient prescription drugs. Medicare generally covers only about two-thirds of the cost of health care services for Medicare beneficiaries ages 65 and older.

The main reason for the decrease in needed savings from 2019 to 2020 is related to the adjustment made each year to re-establish the baseline for out-of-pocket spending associated with prescription drug use. The Medicare Trustees reduced projected costs for Medicare Part D premiums and out-of-pocket expenses. Projecting these and other changes in Medicare Part D out-of-pocket spending over the course of one's lifetime results in a significant reduction in savings targets for Medicare beneficiaries who would benefit from such changes the most — Medicare beneficiaries with prescription drug

spending at the 75th and 90th percentiles throughout retirement. Some of the reduction is due to a change in EBRI's model from using data from Medigap Plan F to Plan G.

“Americans should consider that even with this decline, the amount needed to supplement Medicare is still significant, and that they will likely need more savings than cited in this report,” said Paul Fronstin, Ph.D., Director of the Health Research and Education Program at EBRI and co-author of the study. “In addition to the costs cited here, there are the potential costs associated with long-term care and other health expenses not covered by Medicare. Also, many individuals retire before becoming eligible for Medicare. Of course, other workers will need less savings if they choose to work past age 65, or postpone enrollment in Medicare.”

The data used in EBRI's analysis come from a variety of sources. EBRI employed a Monte Carlo simulation model for this evaluation that simulated 100,000 observations, allowing for the uncertainty related to individual mortality and rates of return on assets in retirement.

This annual EBRI report focuses on future retirement income security, as policymakers address financial issues in the Medicare program with solutions that may shift more responsibility for health care costs to Medicare beneficiaries.

A copy of the Issue Brief, **“A Bit of Good News During the Pandemic: Savings Medicare Beneficiaries Need for Health Expenses Decreases in 2020”** can be found at www.ebri.org.

About EBRI

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