

New EBRI Report Finds Some Medicare Households May Need Nearly \$500,000 for Health Care in Retirement

New analysis highlights steep savings targets for Medicare beneficiaries, especially couples with high prescription drug expenses

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WASHINGTON, D.C. — Some Medicare beneficiaries may need to set aside hundreds of thousands of dollars to cover health care expenses in retirement, with some couples needing as much as \$469,000, according to a new report from the Employee Benefit Research Institute.

The report, “Projected Savings Medicare Beneficiaries Need for Health Expenses in Retirement up Again in 2025,” finds that even with the Inflation Reduction Act’s new \$2,000 cap on Medicare Part D out-of-pocket prescription drug spending in 2025, retirees may still need substantial savings to cover premiums and other health care costs.

The findings come as retiree health coverage continues to become less common among private-sector employers, shifting more responsibility for health care costs onto workers and retirees.

“Health care costs remain a major financial challenge in retirement, even for people covered by Medicare,” said Paul Fronstin, director of health benefits research, EBRI. “While the new Medicare Part D out-of-pocket cap offers important financial protection, our analysis shows many retirees will still need significant savings to have a reasonable chance of covering health care expenses throughout retirement.”

Among the report’s key findings:

Some couples could need nearly half a million dollars in retirement savings for health care. In an extreme case, a couple with particularly high prescription drug expenditures would need \$469,000 to have a 90% chance of having enough money to cover health care costs in retirement.

Many couples enrolled in Medigap could face especially high savings targets. A couple enrolled in a Medigap plan with average premiums would need \$267,000 to have a 50% chance of covering medical expenses in retirement and \$405,000 to have a 90% chance.

Single retirees also may need substantial savings. A 65-year-old man enrolled in a Medigap plan with average premiums would need \$120,000 in savings to have a 50% chance of meeting retirement health care expenses, while a 65-year-old woman would need \$146,000. To have a 90%

chance of covering those expenses, a man would need \$212,000 and a woman would need \$252,000.

Savings targets generally are lower for Medicare Advantage enrollees, though trade-offs remain. A man enrolled in Medicare Advantage with median prescription drug expenses and average use of health care services would need \$61,000 to have a 50% chance of meeting expenses in retirement and \$106,000 to have a 90% chance. A woman in the same situation would need \$74,000 and \$125,000, respectively. Couples would need \$135,000 to have a 50% chance and \$203,000 to have a 90% chance. However, Medicare Advantage plans often have narrower provider networks or require prior approval for certain services or medications.

The report also underscores that Medicare was never designed to cover all health care expenses in retirement. In addition, EBRI noted that the savings targets in the analysis may underestimate total retirement health care needs because they do not include long-term care expenses or costs for services that are not generally covered by Medicare, such as dental and vision care.

“Retirees and workers nearing retirement should not assume Medicare will fully shield them from potentially high health care costs,” said Jake Spiegel, senior research associate, EBRI. “These findings highlight the importance of planning ahead and understanding the trade-offs among coverage options, including differences in premiums, out-of-pocket costs and access to care.”

The full report, “Projected Savings Medicare Beneficiaries Need for Health Expenses in Retirement up Again in 2025,” is available at: <https://www.ebri.org/publications/research-publications/issue-briefs/content/projected-savings-medicare-beneficiaries-need-for-health-expenses-in-retirement-up-again-in-2025>.

The Employee Benefit Research Institute is a nonprofit, nonpartisan research organization that provides objective information about critical issues relating to employee benefit programs in the United States. The organization also coordinates activities for the Center for Research on Health Benefits Innovation, the Financial Wellbeing Research Center and the Retirement Security Research Center and produces a variety of industry surveys throughout the year. For more information, visit ebri.org.

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MEDIA NOTE: To receive the complete research report, email Ron Dresner at dresner@ebri.org