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New Research from EBRI:

How Retirees Spend Out-of-Pocket Money on Health Costs

WASHINGTON—How do retirees spend their out-of-pocket money on health care in retirement?

New research from the nonpartisan Employee Benefit Research Institute (EBRI) separates recurring and non-recurring health-care services and finds that usage and expenses of recurring health-care services remain stable throughout retirement, while usage of non-recurring ones increase with age and tend to be more expensive.

The EBRI research also quantifies how the usage and expenses for different types of health-care services increase during the end-of-life period.

“Health care is one of the key components of retirement expenses, and is the only part of household expenditures that increase with age,” said Sudipto Banerjee, EBRI research associate and author of the report. “While some of these costs are more predictable, others are uncertain, and for many people these expenses spike toward the end of life when resources are slim. To successfully manage your resources in retirement, a good plan may include separate preparations for each.”

As the EBRI report points out, in 2011, average annual out-of-pocket health care cost for a household between 65–74 years old was \$4,383, which accounted for 11 percent of total household expenses. That shoots up for households ages 85 and above to \$6,603 a year, or 19 percent of total household expenses.

The EBRI analysis uses data from the Health and Retirement Study (HRS), a study of a nationally representative sample of U.S. households with individuals over age 50 and the most comprehensive survey of older Americans in the nation. Based on utilization patterns and expenses, it categorizes doctor visits, dentist visits and usage of prescription drugs as recurring health care services. Overnight hospital stays, overnight nursing-home stays, outpatient surgery, home health care and usage of special facilities are categorized as non-recurring health care services.

Among the report’s key findings:

- Recurring health care costs remain stable throughout retirement. The average annual expenditure for recurring health care expenses among the Medicare eligible population was \$1,885. Assuming a 2 percent rate of inflation and 3 percent rate of return, a person with a life expectancy of 90 would require \$40,798 at age 65 to fund his or her recurring health care expenses. This does not include expenses for any insurance premiums or over-the-counter medications.

- Usage and expenses of non-recurring health care services go up with age. Nursing-home stays in particular can be very expensive. For people ages 85 and above, the average and the 90th percentile of nursing-home expenses were \$24,185 and \$66,600 during a two year period, respectively.
- Not surprisingly, nursing-home stays, home health care and overnight hospital stays are much higher in the period preceding death. More than 50 percent in every age group above 65 received in-home health care from a medically trained person before death. For those 85 and above, 62.3 percent had overnight nursing-home stays before death and 51.6 percent were living in a nursing home prior to death.
- Women above 85 have significantly higher nursing-home usage than men. The rest of the differences between men and women are small.
- Also not surprisingly, the top income quartile spent significantly more on nursing-home and home health care expenses than the rest. Usage of recurring health care services generally goes up with income. Usage of non-recurring health care services— except usage of outpatient surgery and special facilities—goes down with income.

The full report, “Utilization Patterns and Out-of-Pocket Expenses for Different Health Care Services Among American Retirees,” is published in the February 2015 *EBRI Issue Brief* No. 411, online at www.ebri.org

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