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**New Research from EBRI:**

## **Needed Health Savings in Retirement Going Up Again**

WASHINGTON—Projected savings targets needed to cover health care in retirement are going up again after several years of decline, according to new research by the nonpartisan Employee Benefit Research Institute (EBRI). This follows more recent declines during 2012–2014.

EBRI found that the range of retiree health savings targets rose between 6–21 percent between 2014 and 2015. While there are various factors at play, “the main reason for the increase in needed savings is related to the yearly adjustment for out-of-pocket spending for prescription drug use,” said Paul Fronstin, director of EBRI’s Health Research and Education Program and co-author of the report. Because actual out-of-pocket spending for prescription drugs in the most recent data turned out to be higher than expected, future estimates have gone up.

Since the EBRI analysis does not factor in the savings needed to cover such things as long-term care expenses, retirement earlier than becoming eligible for Medicare, and higher Medicare premiums related to higher income, “many individuals will need more than the amounts cited in this report,” Fronstin said.

Conversely, he added some workers will need to save less than what is reported if they choose to work past age 65, thereby postponing enrollment in Medicare if they receive health benefits as active workers.

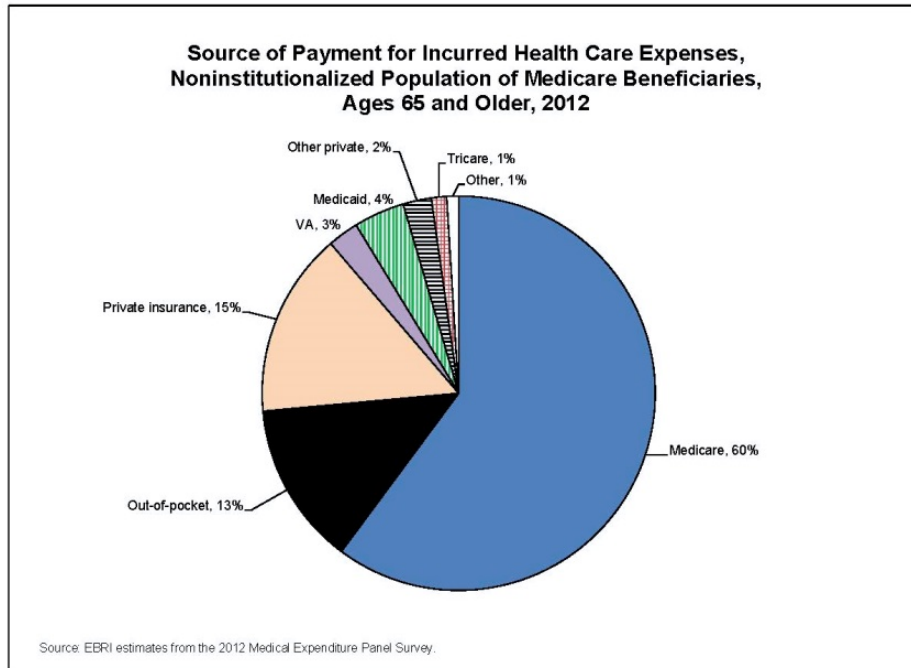
The range of increases depends on how much health expenses a person is likely to have and how high a probability they want to have enough money on hand. Specifically, EBRI found, in 2015, a 65-year-old man would need \$68,000 in savings and a 65-year-old woman would need \$89,000 if each has a goal of having a 50 percent chance of having enough money saved to cover health care expenses in retirement. If either instead wanted a 90 percent chance of having enough savings, \$124,000 is needed for a man and \$140,000 is needed for a woman.

Not surprisingly, those with high prescription drug costs would need to save substantially more. For a married couple both with drug expenses at the 90<sup>th</sup> percentile throughout retirement who want a 90 percent chance of having enough money saved for health care expenses in retirement by age 65, targeted savings increased from \$326,000 in 2014 to \$392,000 in 2015.

EBRI’s latest analysis updates its previous estimates on savings needed to cover health insurance premiums and health care expenses in retirement. As before, it points out that projections of savings needed to cover out-of-pocket expenses for prescription drugs are highly dependent on the assumptions used for drug utilization, which is why the analysis provides three sets of estimates: prescription drug use is at the median (mid-point, half above and half below) throughout retirement; prescription drug use at the

75th percentile throughout retirement; and in prescription drug use is at the 90th percentile throughout retirement.

Last year's analysis by EBRI found that retiree health savings targets declined between 2 percent and 10 percent between 2013–2014, due in part to enhanced prescription drug coverage provided by the Patient Protection and Affordable Care Act (PPACA).



As Fronstin noted, Medicare was never designed to cover health care expenses in full. In 2012, Medicare covered 60 percent of the cost of health care services for Medicare beneficiaries ages 65 and older, while out-of-pocket spending accounted for 13 percent, and private insurance covered 15 percent.

The full report, “Amount of Savings Needed for Health Expenses for People Eligible for Medicare: Unlike the Last Few Years, the

News Is Not Good,” is published in the October 2015 *EBRI Notes* and online at [www.ebri.org](http://www.ebri.org)

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