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New Research from EBRI:

Some Rare Good News: Retiree Health Savings Needs Slip

WASHINGTON—Projections for how much elderly Americans need to save for out-of-pocket health care in retirement have edged lower, due to a provision in the federal health reform law that will cover more of their prescription drug costs, according to a new report by the nonpartisan Employee Benefit Research Institute (EBRI).

The Patient Protection and Affordable Care Act (PPACA) reduces cost sharing in the Medicare Part D “donut hole” to 25 percent by 2020. This year-to-year reduction in coinsurance will continue to reduce savings needed for health care expenses in retirement, all else equal, for individuals with the highest prescription drug use, EBRI reports.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) added outpatient prescription drugs (Part D) as an optional benefit. When the program was originally enacted, it included a controversial feature: a coverage gap, more commonly known as the “donut hole.” PPACA included provisions to reduce (but not eliminate) this coverage gap.

Medicare generally covers only about 60 percent of the cost of health care services (not including long-term care) for Medicare beneficiaries ages 65 and older, while out-of-pocket spending accounts for 13 percent.

The EBRI analysis finds 1–2 percent reductions in needed savings among individuals with median (mid-point, half above and half below) drug use and 4-5 percent reductions in needed savings among individuals at the 90th percentile in drug use since its last analysis in 2011.

Specifically, EBRI projects that a 65-year-old man would need \$70,000 in savings and a woman would need \$93,000 in 2012 if each had a goal of having a 50 percent chance of having enough money saved to cover health care expenses (excluding long-term care) in retirement.

By comparison, a 65-year-old couple, both with median drug expenses, would need \$163,000 in 2012 to have a 50 percent chance of having enough money to cover health care expenses (excluding long-term care) in retirement, \$227,000 to have a 75 percent chance of covering those expenses, and \$283,000 to have a 90 percent chance of doing so. These estimates are 1–2 percent lower than the savings targets estimated in 2011.

The full report, “Savings Needed for Health Expenses for People Eligible for Medicare: Some Rare Good News,” is published in the October *EBRI Notes*, online at www.ebri.org

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