EBRI News

1100 13th St. NW • Suite 878 • Washington, DC 20005
(202) 659-0670 • www.ebri.org • Fax: (202) 775-6312

FOR IMMEDIATE RELEASE: **June 3, 2008**
CONTACT: Paul Fronstin, EBRI, (202) 775-6352, Fronstin@ebri.org
     John MacDonald, EBRI, (202) 775-6349, macdonald@ebri.org

New Research from EBRI:
Estimates Show More Precise Retiree Health Savings Needs

WASHINGTON—The nonpartisan Employee Benefit Research Institute (EBRI) today published a new, more comprehensive set of estimates of the amount of money individuals and couples will need to cover certain health care expenses in retirement. The new estimates attempt to provide more information to allow men, women, and couples to deal with the financial consequences of longevity and investment risk as well as the various types of medical care coverage available when they reach age 65.

The new estimates, published in the May 2008 _EBRI Issue Brief_, use a Monte Carlo (random) simulation model to estimate the amount of savings needed to cover health insurance premiums and out-of-pocket health care expenses in retirement. The full report is available online at www.ebri.org

Separate estimates are presented for individuals and couples who supplement Medicare with employment-based retiree health benefits and for those who use a combination of individual health insurance through Medigap and Medicare Part D outpatient drug coverage.

In each case, estimates are presented for individuals and couples to determine the assets needed to cover retiree health costs 50 percent, 75 percent, and 90 percent of the time. The estimates vary widely, depending on how much risk the individual or couple is willing to assume. For example, the amount of money needed to cover these costs under "average" conditions (the 50 percent figure) is much smaller than the 90 percent figure; however, in the 50 percent case, assets will be insufficient half of the time, as opposed to only 10 percent of the time under the higher figure.

Here are the results:

Employment-based benefits, with premiums subsidized by a former employer:
This example assumes a 65-year-old individual supplements Medicare with retiree health benefits from a former employer and _that the premiums are subsidized_ by a former employer (see figure below). The savings needed are:

> **Man:** A man would need $64,000 in current savings to have a 50 percent chance of having enough money to cover health care expenses in retirement, or $122,000 in current savings for a 90 percent chance of having enough to cover retiree health costs.

> **Woman:** A woman would need current savings of $86,000 to have a 50 percent chance of having enough money for retiree health expenses, or $140,000 to have a 90 percent chance of having enough to cover retiree health costs. The numbers are higher for women because of their greater longevity.

> **Married couple:** A married couple would need current savings of $154,000 to have a 50 percent chance of having enough money for retirement health costs, or $235,000 for a 90 percent chance.

Savings Needed for Employment-Based Health Premiums, Medicare Part B Premiums, and Out-of-Pocket Costs for Retirement at Age 65 in <u>2008</u>		
	Employer Subsidizes Premiums	No Employer Subsidy of Premiums
Men		
Median	$64,000	$102,000
75th Percentile	96,000	154,000
90th Percentile	122,000	196,000
Women		
Median	86,000	137,000
75th Percentile	112,000	179,000
90th Percentile	140,000	224,000
Married Couple		
Median	154,000	246,000
75th Percentile	198,000	317,000
90th Percentile	235,000	376,000
Source: Authors' simulations based on assumptions described in the text.		

(additional data, including needed savings by 55-year-old retiring 10 years from now, are available in the full EBRI Issue Brief at www.ebri.org)

Employment-based benefits, with premiums not subsidized by a former employer:

This example assumes a 65-year-old individual supplements Medicare with retiree health benefits from a former employer but the ***premiums are not subsidized*** by a former employer. The savings needed are:

Man: A man would need $102,000 in current savings to have a 50 percent chance of having enough money to cover health care expenses in retirement, or $196,000 in current savings for a 90 percent chance of having enough to cover retiree health costs.

Woman: A woman would need current savings of $137,000 to have a 50 percent chance of having enough money for retiree health expenses, or $224,000 to have a 90 percent chance of having enough savings to cover retiree health costs. Again, the numbers are higher for women because of greater longevity.

Married couple: A married couple would need savings of $246,000 to have a 50 percent chance of having enough money for retirement health costs, or $376,000 for a 90 percent chance.

Medicare, with individually purchased supplemental insurance:

The example assumes 65-year-old individuals who do not have employment-based retiree health benefits and instead supplement Medicare with the individually purchased Medigap (Plan F) and Medicare Part D outpatient drug coverage. The estimates note that projections of the savings needed to cover out-of-pocket drug expenses are subject to a number of variables. The estimates presented in the *Issue Brief* show the differences for individuals and couples with a three levels of prescription drug use: 50th percentile (median drug expenses), 75th percentile, and 90th percentile (high).

Man: A man with median (50th percentile) drug expenditures would need $79,000 in current savings to have a 50 percent chance of having enough money to cover health care expenses in retirement, or $159,000 for a 90 percent chance of having enough to cover retiree health costs. At the 90th percentile level of drug spending, a man would need $331,000 for a 90 percent chance of having enough money to cover retiree health costs.

Woman: A woman with median (50th percentile) drug expenditures would need current savings of $108,000 for a 50 percent chance of having enough money for retiree health expenses, or $184,000 for a 90 percent chance of having enough money. Again, the numbers are higher for women because of their greater longevity. At the 90th percentile level of drug spending, a woman would need $390,000 to have a 90 percent chance of having enough money to cover retiree health costs.

Married couple: A married couple, both with median (50 percentile) drug expenses would need current savings of $194,000 to have a 50 percent chance of having enough money for retirement health costs, or $305,000 for a 90 percent chance. For those with very high drug expenses (in the 90th percentile), couples would need $635,000 to have a 90 percent chance of having enough money.

As high as these estimates are, the *Issue Brief* notes that many individuals will need even more money than the amounts projected because the analysis does not factor in the savings needed to cover long-term care expenses, nor does it account for the fact than many individuals retire early (before they become eligible for Medicare). Also, these estimates do not include savings needed to cover any basic costs of living, such as food, clothing or shelter.

The *Issue Brief* also contains estimates for individuals who retire at 65 in 2018 (meaning those currently age 55) and a detailed analysis of the decline in the number of private-sector employers offering Medicare supplemental health insurance.

EBRI is a private, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions. www.ebri.org

PR #802