Saving for Health Care Expenses in Retirement

A recent EBRI study, “Savings Medicare Beneficiaries Need for Health Expenses in 2019: Some Couples Could Need as Much as $363,000,” found that the amount of money individuals may need to cover their health care expenses once they retire may be eye-opening for many of them. EBRI’s Monte Carlo simulation model predicts that a 65-year-old man needs $79,000 in savings and a 65-year-old woman needs $104,000 in savings for a 50 percent chance of having enough to cover premiums and median prescription drug expenses in retirement (Figure 1). The issue with using such estimates is that there is uncertainty related to individual mortality and other factors. For a 90 percent chance of having enough savings, a man needs $144,000 and a woman needs $162,000. Women need more savings than men for the simple reason that they live longer on average.

Savings needs are even higher for individuals who use a lot of prescription medications. Among those at the 90th percentile of prescription drug use throughout retirement, men need $175,000 and women need $194,000 to have a 90 percent chance of having enough savings to cover premiums and out-of-pocket prescription drug costs.

For a 50 percent chance of having enough to cover health care expenses in retirement, a couple with median prescription drug expenses needs $183,000 in savings. For a 90 percent chance of having enough, the couple needs $301,000 in savings (Figure 2). At the extreme — a couple with drug expenses at the 90th percentile throughout retirement who wants a 90 percent chance of having enough money for health care expenses in retirement by age 65 — targeted savings are $363,000 in 2019.

These lump sums may be daunting. However, when spread over a full career, they become much less so. For example, we estimate that if a couple retired today, they would have needed to save $545 each year starting in 1979, scaling up to $1,776 by retirement age (a 3 percent annual increase), to reach the $183,000 goal.\textsuperscript{2}
Savings targets have moved up and down over the past decade. The 2019 $363,000 savings target is lower than the nearly $400,000 required in 2018 primarily due to the fact that the Medicare Trustees reduced projected costs for Medicare Part D premiums and out-of-pocket expenses (Figure 3).

The EBRI report, “Savings Medicare Beneficiaries Need for Health Expenses in 2019: Some Couples Could Need as Much as $363,000,” is published as the May 2019 EBRI Issue Brief, and is available online here.

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1 This analysis does not factor in the total savings needed to cover long-term care expenses and other health expenses not covered by Medicare.

2 Projection based on EBRI’s Retirement Security Projection Model®, assuming an investment return in line with an asset allocation similar to that of the typical target-date fund.