

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).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.

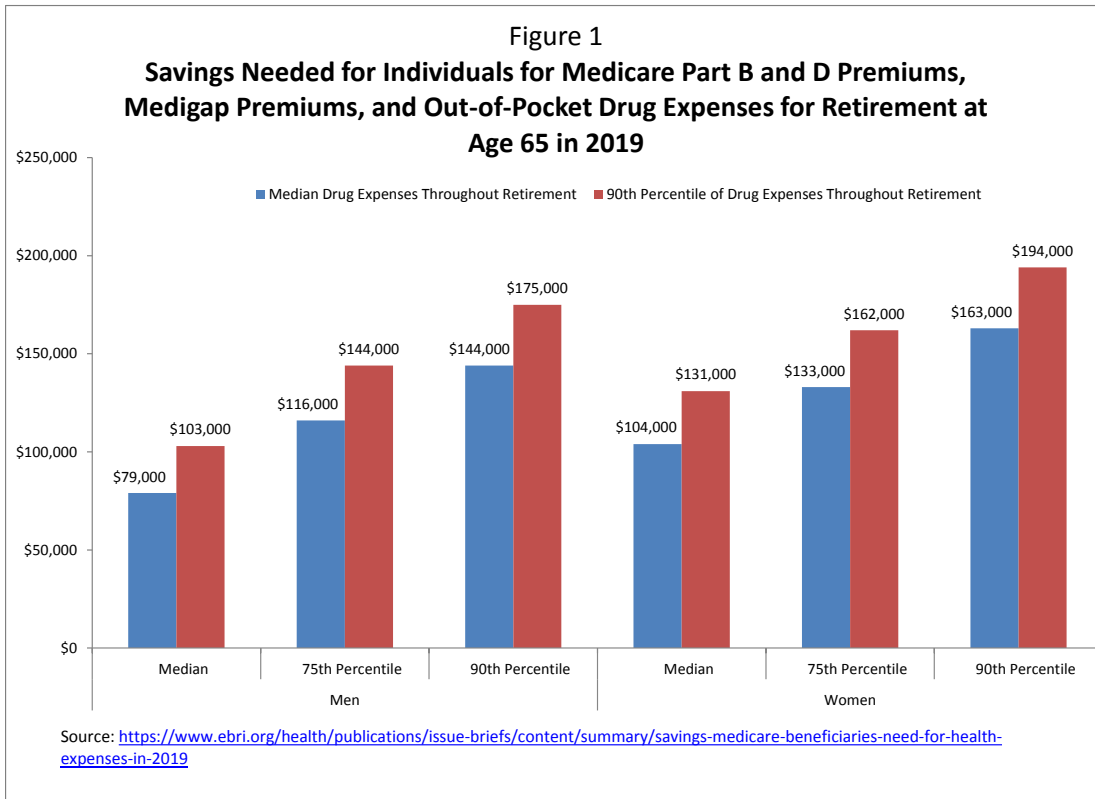
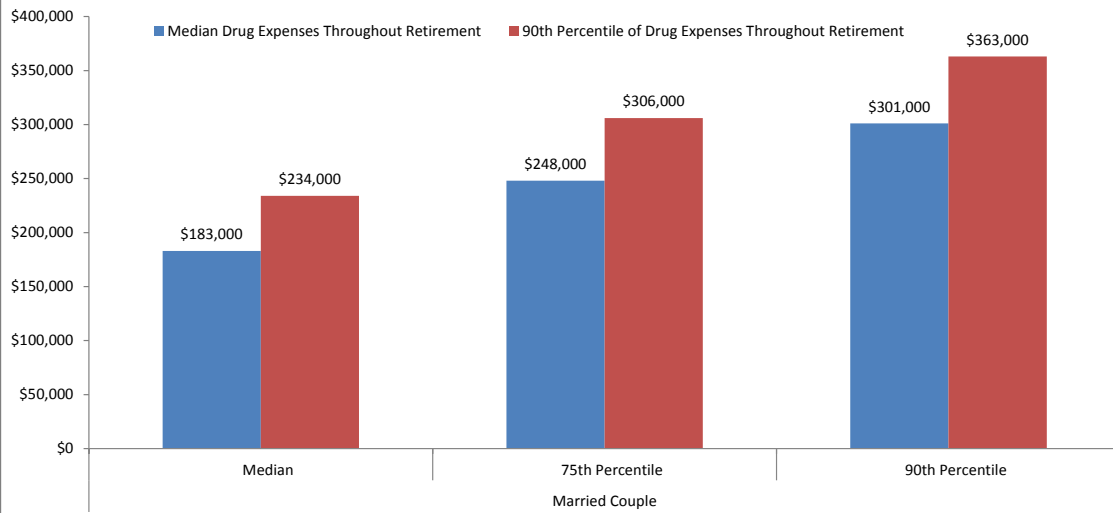
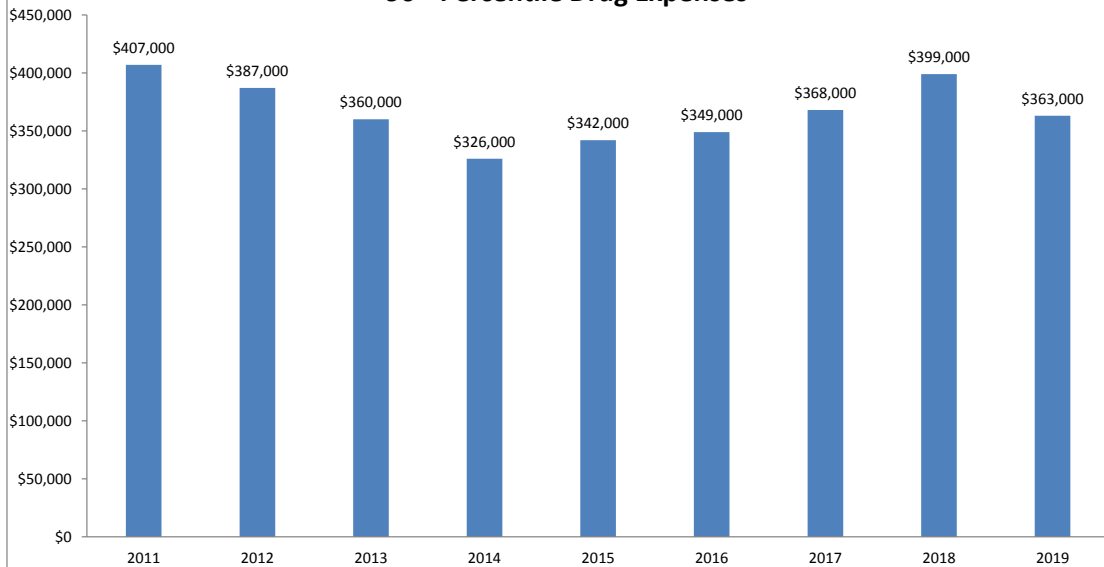


Figure 2
Savings Needed for Married Couples for Medicare Part B and D Premiums, Medigap Premiums, and Out-of-Pocket Drug Expenses for Retirement at Age 65 in 2019



Source: <https://www.ebri.org/health/publications/issue-briefs/content/summary/savings-medicare-beneficiaries-need-for-health-expenses-in-2019>

Figure 3
Savings Needed for Married Couple, 2011–2019
90 Percent Chance of Having Enough Savings:
90th Percentile Drug Expenses



Source: <https://www.ebri.org/health/publications/issue-briefs/content/summary/savings-medicare-beneficiaries-need-for-health-expenses-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.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.