

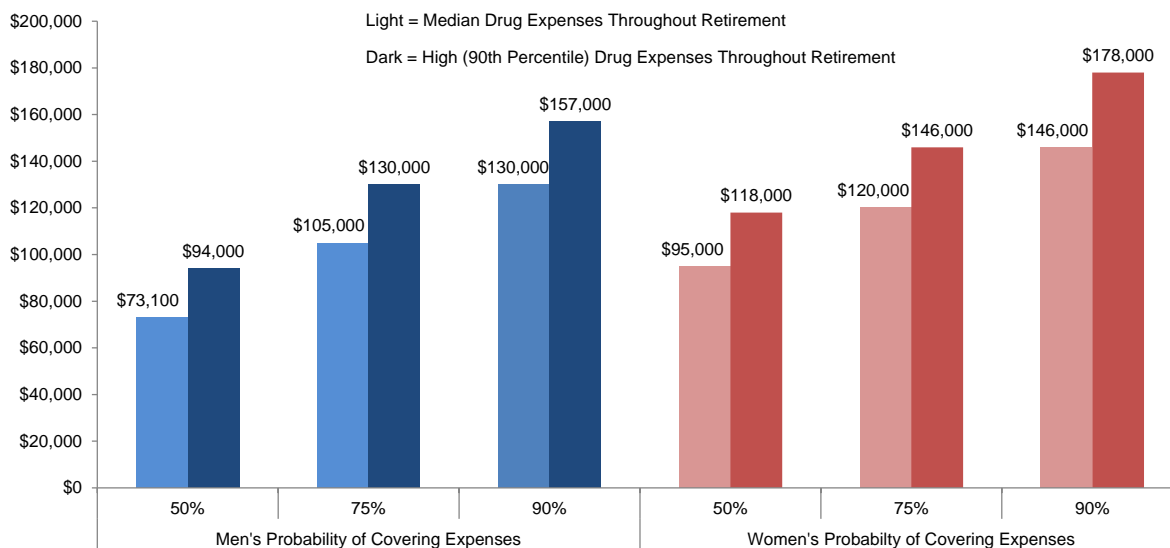
Rolling the Dice: Range of Savings Needed for Health Care Expenses in Retirement

In a recent study,¹ the Employee Benefit Research Institute employed a Monte Carlo simulation model to predict how much individuals need to have saved to cover premiums and median prescription drug expenses in retirement. It found that a 65-year-old man needs \$73,100 in savings and a 65-year-old woman needs \$95,000 in savings for a 50/50 chance of having enough (Figure 1).²

The issue with using such estimates, however, is that there is uncertainty related to individual mortality and other factors. Further, individuals are likely to want more than a 50/50 chance of covering such medical expenses in retirement. For a greater chance — 75 percent, for example — of covering drug and medical premiums in retirement, individuals would need considerably more. A 65-year-old man would need \$105,000 (44 percent more than for a 50/50 chance of having enough) and a 65-year-old woman would need \$120,000 (26 percent more than for a 50/50 chance of having enough) saved. For a very high (90 percent) chance of having enough savings for such expenses, a man would need \$130,000 and a woman would need \$146,000. 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 who use a high level of prescription drugs (in the 90th percentile) throughout retirement, men would need \$157,000 and women would need \$178,000 to have a very high chance of having enough savings to cover premiums and out-of-pocket prescription drug costs.

Figure 1
Savings Needed for Individuals Aged 65 to Cover Medical Expenses* in Retirement

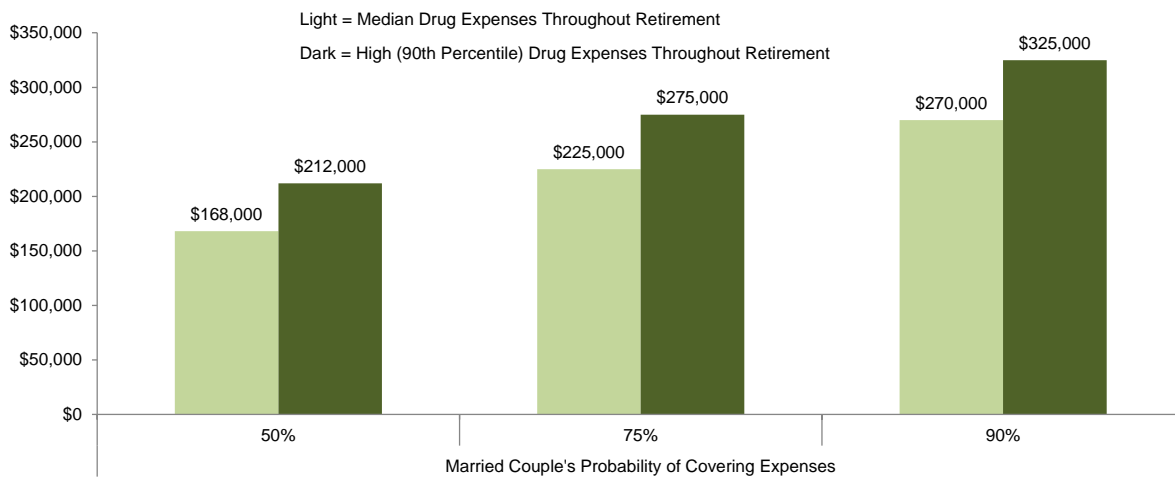


* Medical expenses include Medicare Part B and D premiums, Medigap premiums, and out-of-pocket drug expenses. They do not include long-term-care expenses.

For a 50/50 chance of having enough to cover health care expenses in retirement, a couple with median prescription drug expenses would need \$168,000 in savings. For a 90 percent chance of having enough, the couple would need \$270,000 in savings (Figure 2). At the extreme — a couple with high drug expenses throughout retirement who wants a very high chance of having enough money for health care expenses in retirement by age 65 — targeted savings are \$325,000 in 2020.

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 \$515 each year starting in 1980, scaling up to \$1,681 by retirement age (a 3 percent annual increase), to reach the \$168,000 goal.³ Health savings accounts (HSAs) can be used to cover health care expenses in retirement, but balances may not be sufficient to pay all medical expenses in retirement even if maximum contributions are made for 40 years.⁴

Figure 2
Savings Needed for Married Couples Aged 65 to Cover Medical Expenses* in Retirement



* Medical expenses include Medicare Part B and D premiums, Medigap premiums, and out-of-pocket drug expenses. They do not include long-term-care expenses.

Savings targets have moved up and down over the past decade. The 2020 \$325,000 savings target is lower than the nearly \$400,000 required in 2018 due to a number of reasons. The Medicare Trustees reduced projected costs for Medicare Part D premiums and out-of-pocket expenses. The change in our model from Medigap Plan F to Plan G also accounted for a portion of the decline in needed savings.

The EBRI report, “A Bit of Good News During the Pandemic: Savings Medicare Beneficiaries Need for Health Expenses Decrease in 2020,” is published as the May 2020 *EBRI Issue Brief* and is available online [here](#).

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¹ Paul Fronstin and Jack VanDerhei, “A Bit of Good News During the Pandemic: Savings Medicare Beneficiaries Need for Health Expenses Decrease in 2020,” *EBRI Issue Brief*, no. 506 (Employee Benefit Research Institute, May 28, 2020).

² This analysis does not factor in the total savings needed to cover long-term-care expenses and other health expenses not covered by Medicare.

³ 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.

⁴ See <https://www.ebri.org/health/publications/issue-briefs/content/-lifetime-accumulations-and-tax-savings-from-hsa-contributions-and-ira-withdrawals-in-2012-and-longitudinal-results-2010-2012--5428>

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