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

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Contact: Stephen Blakely, EBRI: 202/775-6341, blakely@ebri.org
Paul Fronstin, EBRI (author), 202/775-6352, fronstin@ebri.org

New Research from EBRI:

Needed Savings for Health Care in Retirement Continue to Fall

WASHINGTON—Projected savings targets American elderly need to cover their health care costs in retirement continue to decline, due in part to enhanced prescription drug coverage provided by the Patient Protection and Affordable Care Act (PPACA), according to new modeling by the nonpartisan Employee Benefit Research Institute (EBRI).

The EBRI report, an update of previous computer modeling of retiree health savings needs, found that savings targets declined between 2 percent and 10 percent between 2013–2014. For a married couple both with drug expenses at the 90th percentile throughout retirement who wanted a 90 percent chance of having enough money saved for health care expenses in retirement by age 65, targeted savings fell from $360,000 in 2013 to $326,000 in 2014.

In 2014, a man would need $64,000 in savings and a woman would need $83,000 if each had a goal of having a 50 percent chance of having enough money saved to cover health care expenses in retirement. If either instead wanted a 90 percent chance of having enough savings, $116,000 would be needed for a man and $131,000 would be needed for a woman.

As the EBRI report notes, Medicare beneficiaries can expect to pay a share of their costs out of pocket because of program deductibles and other cost sharing. In 2011, Medicare covered 62 percent of the cost of health care services for Medicare beneficiaries ages 65 and older, while out-of-pocket spending accounted for 13 percent, and private insurance covered 15 percent.

"Medicare was never designed to cover health care expenses in full. Individuals over 65 have to pay for their own deductibles for inpatient and outpatient services, as well as for uninsured costs of outpatient prescription drugs," said Paul Fronstin, director of EBRI's Health Research and Education Program, and lead author of the latest report.

As the EBRI report notes, when outpatient prescription drugs were added as an optional benefit under Medicare, the program included a then-controversial coverage gap known as the so-called "donut hole." PPACA included provisions to reduce the size of this coverage "gap,": By 2020, enrollees will pay 25 percent of the cost of prescription drugs when they are in the coverage gap for both generic and brand-name drugs.

However, Fronstin notes, regardless of the effects of PPACA, individuals may pay a greater share of their overall costs in the future because of the combination of the financial condition of the Medicare program and cutbacks to employment-based retiree health programs.

The EBRI report points out that projections of savings needed to cover out-of-pocket expenses for prescription drugs are highly dependent on the assumptions used for drug utilization, which is why the analysis provides three sets of estimates: prescription drug use is at the median (mid-point, half above and half below) throughout retirement; prescription drug use at the 75th percentile throughout retirement; and in prescription drug use is at the 90th percentile throughout retirement.
"It should be noted that many individuals will need more than the amounts cited in this report," said Fronstin, because it does not factor in the savings needed to cover long-term care expenses, nor does it take into account the fact that many individuals retire prior to becoming eligible for Medicare. However, some workers will need to save less than what is reported if they choose to work past age 65, thereby postponing enrollment in Medicare Parts B and D if they receive health benefits as active workers.

The full report, "Amount of Savings Needed for Health Expenses for People Eligible for Medicare: Good News Not So Rare Anymore," is published in the October EBRI Notes, online at www.ebri.org

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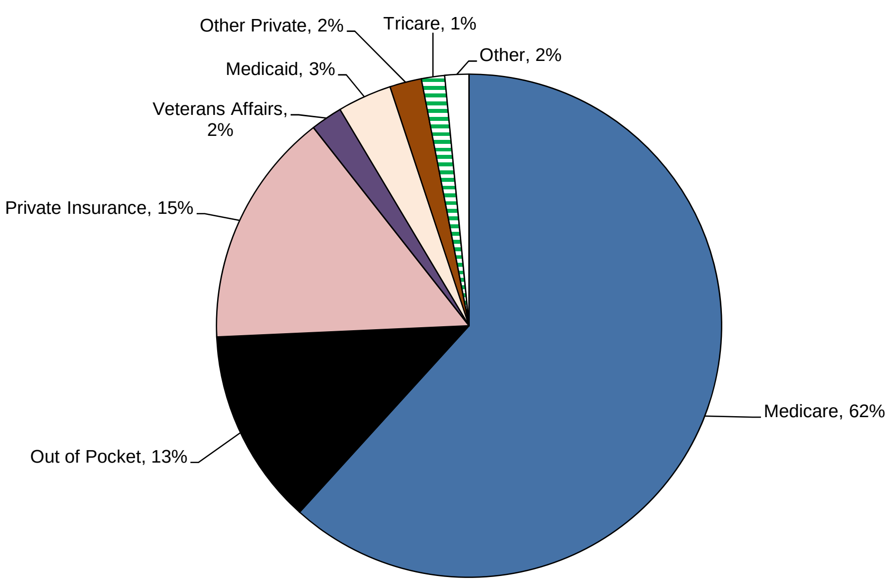
Source of Payment for Incurred Health Care Expenses, Noninstitutionalized Population of Medicare Beneficiaries, Ages 65 and Older, 2011



Source: EBRI estimates from the 2011 Medical Expenditure Panel Survey.