

# PREPARING FOR HEALTH CARE COSTS IN RETIREMENT: AN AMERICA'S HEALTH RANKINGS® ISSUE BRIEF

UNITED HEALTH FOUNDATION AND ALLIANCE FOR AGING RESEARCH

MAY 2017



With health care expenditures expected to exceed \$3.5 trillion in 2017 and grow by an average of 5.6 percent each year through 2025, health care affordability is a growing concern for individuals and families.<sup>1</sup> Preparedness for rising health care costs is of particular importance for retired seniors as well as those who are still in the workforce and are planning for their future health care, housing, transportation, and other retirement expenses. These considerations are key to retirees' health and well-being, and collectively can have a more powerful impact on overall health than medical care alone.<sup>2</sup>

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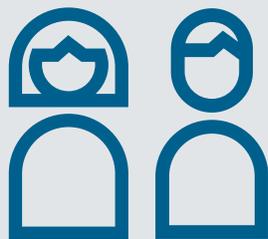
1 Centers for Medicare & Medicaid Services. National Health Expenditure Projections 2015 – 2025 Forecast Summary. <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/proj2016.pdf>. Updated March 2017. Accessed April 3, 2017.

2 Centers for Disease Control and Prevention. Social Determinants of Health: Know What Affects Health. <https://www.cdc.gov/socialdeterminants/index.htm>. Updated March 3, 2017. Accessed April 3, 2017.

While most people have given great thought to where they will live and what they will do when they retire, few are well-versed in planning for their future health care expenses. Yet without adequate preparation, the high costs of both anticipated and unexpected health care needs can adversely impact seniors' overall health and financial well-being in their retirement years.

This issue brief, released in collaboration with United Health Foundation and the Alliance for Aging Research, examines the degree to which current and future retirees are prepared to meet rising health care costs in retirement, which are expected to range between approximately \$260,000 for a 65-year-old couple retiring today, to nearly \$600,000 for a 45-year-old couple retiring 20 years from now.<sup>3</sup> Based on analysis of a recently conducted survey of retired seniors (age 65+) and non-retired adults (age 50-64), as well as data from studies on recommended health care savings targets in retirement, key findings include:

- **Many current and future retirees are at risk of not being able to afford the high costs of health care in retirement.** Sixty-two percent of retirees age 65+ and about three out of four non-retired adults age 50 to 64 have less in total retirement savings than what experts recommend saving for health care costs alone.
- **A high percentage of current and future retirees are unsure about how much to save to cover both anticipated as well as unexpected health care costs.** Fifty percent of retirees age 65+ and 36 percent of non-retired adults age 50-64 report that they don't know or have no opinion about how much money their households will need for health care costs during retirement – indicating a need for greater transparency and financial literacy about the costs of both anticipated and unexpected health care needs.
- **Current and future retirees with retirement savings of \$20,000 or less are more likely to be in poor health, have chronic disease, and have lower incomes than those with higher rates of retirement savings.** These individuals – many of whom will likely have significant health care needs – are also likely to encounter sizeable economic barriers in paying for their care.



#### METHODOLOGY:

1,997 adults age 50 and older were interviewed online to learn about the financial preparedness of both non-retired adults (aged 50-64) and retired seniors (aged 65+).<sup>4</sup> Results were weighted based on age, race/ethnicity, gender, educational attainment, and geographic region (determined by 2012 Current Population Survey). Additionally, attentiveness tests were utilized to ensure high levels of engagement and to monitor response speed. The survey of non-retired respondents has a margin of error of +/- 4% and the survey of retired respondents has a margin of error of +/- 3%.

This issue brief builds on the [2016 America's Health Rankings Senior Report](#), which found that marked growth in the prevalence of certain chronic diseases among the next generation of seniors aged 50 to 64, combined with a nearly 50 percent growth in the size of the senior population by 2030, will likely place a significant strain on the health care system. The 2016 findings, together with the results of this analysis, highlight the need for additional tools, supports, and actions that improve the health and well-being of today's – and tomorrow's – seniors.

<sup>3</sup> Savings estimates assume that a 65-year-old couple retiring today will need about 22 years of savings. Future retiree savings estimates assume that a male-female couple will retire together at age 65 and have life expectancies of 87 and 89, respectively.

<sup>4</sup> Polling conducted by Morning Consult.

# RECOMMENDED SAVINGS TARGETS FOR HEALTH CARE EXPENSES IN RETIREMENT

Recommended retirement health care savings targets generally take into account the cost of health care coverage, such as Medicare Part B and Part D premiums, premiums for any supplemental Medicare coverage (e.g., Medigap), and out-of-pocket expenses not covered under Medicare. Importantly, recommended savings targets often do not include the costs of long-term care services – which Medicare generally does not cover – due to the considerable variability in long-term care needs among seniors. For the purposes of this analysis, we reference savings targets that do not include long-term care costs.

**Long-term services and supports (LTSS)** help individuals with functional or cognitive limitations address their health and personal needs. These services may include providing medical care, but also often include assistance with personal tasks, such as bathing, dressing, and eating.<sup>5</sup> LTSS can be administered in a variety of settings including the home, assisted living centers, or nursing homes.

Approximately 70 percent of adults age 65+ are expected to use LTSS, and individuals 85+ are four times more likely to need LTSS compared to adults age 65-84. In 2013, the United States spent \$310 billion on LTSS, with more than half of that covered by Medicaid and the rest paid for by private insurance, other public programs, and out-of-pocket spending.<sup>6</sup>

## Health Savings Recommendations for Retirement



1. Fidelity Viewpoints. Retiree Health Care Costs Rise. August 16, 2016.  
2. HealthView Services: 2016 Retirement Health Care Costs Data Report.

5 Congressional Budget Office. Rising Demand for Long-Term Services and Supports for Elderly People. <https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/reports/44363-ltc.pdf>. Published June 2013. Accessed April 3, 2017.

6 The Kaiser Commission on Medicaid and the Uninsured. Medicaid and Long-Term Services and Supports: A Primer. The Kaiser Family Foundation. <http://files.kff.org/attachment/report-medicare-and-long-term-services-and-supports-a-primer>. Published December 2015. Accessed April 3, 2017.

**Original Medicare** is a federally administered health insurance program that covers many important services for beneficiaries under a fee-for-service model, including inpatient hospitalizations and hospice or home health services (Part A) as well as doctors' visits, medical supplies, and preventive services (Part B). Both Medicare Part A and Part B have deductibles and co-insurance requirements, and there is no out-of-pocket maximum for Original Medicare beneficiaries.

Key services not covered by Original Medicare include routine dental care and dentures, vision care and prescription eyeglasses, and long-term services and supports (LTSS). Prescription drug coverage is also not covered by Original Medicare, but is available for purchase through a Medicare Part D prescription drug plan.

To cover some of the out-of-pocket costs not paid by Original Medicare, about 25 percent of beneficiaries choose to purchase Medicare supplemental insurance, also known as **Medigap**. These plans are standardized by the federal government and are offered by private insurance companies, and each plan covers different types of out-of-pocket costs not covered by Original Medicare.<sup>7</sup>

Instead of Original Medicare, more than 30 percent of Medicare beneficiaries choose a **Medicare Advantage** plan for their Medicare coverage. Medicare Advantage plans are offered by private insurance companies using a coordinated care approach and can cover additional services not covered by Original Medicare, including wellness activities, vision care, prescription drug coverage, and dental services. Unlike Original Medicare, all Medicare Advantage plans offer seniors a cap on out-of-pocket costs for covered in-network services. The premiums and cost-sharing obligations for Medicare Advantage vary by plan and geography.<sup>8</sup>

## HEALTH SAVINGS TARGETS FOR THOSE CURRENTLY RETIRED

Estimates vary on how much current 65-year-olds will need to have saved to meet their health care expenses in retirement, with recommended savings targets differing by as much as 39 percent for someone with an adverse health condition compared to a healthy individual.<sup>9</sup> But regardless of a person's health conditions, recommended savings amounts are significant. For example:

- A 65-year-old couple with Original Medicare retiring in 2016 will need \$260,000 (in 2016 dollars) to cover about 22 years of Original Medicare premiums, cost-sharing, and non-covered medical expenses in retirement, not inclusive of long-term care expenses.<sup>10</sup>
- Similarly, a 65-year-old man with median prescription drug spending retiring in 2016 will need \$127,000 (in 2016 dollars) to have a 90 percent chance of meeting his health care costs in retirement, and a 65-year-old woman will need \$143,000 for her future health care costs.<sup>11</sup>

7 Centers for Medicare & Medicaid Services. What's Medicare Supplement Insurance (Medigap)? <https://www.medicare.gov/supplement-other-insurance/medigap/whats-medigap.html>. Accessed April 3, 2017.

8 Centers for Medicare & Medicaid Services. 13 Things to Know About Medicare Advantage Plans. <https://www.medicare.gov/sign-up-change-plans/medicare-health-plans/medicare-advantage-plans/things-to-know-medicare-advantage-plans.html>. Accessed April 3, 2017.

9 Harlow, WV and Brown, KC. Health State and the Savings Required for a Sustainable Retirement. The University of Texas at Austin Faculty. <http://faculty.mcombs.utexas.edu/keith.brown/Research/retirehealth-wp.pdf>. Published December 2, 2016. Accessed April 3, 2017.

10 Fidelity Viewpoints. Retiree health costs rise. Fidelity Investments. <https://www.fidelity.com/viewpoints/retirement/retiree-health-costs-rise>. Published August 16, 2016. Accessed April 3, 2017.

11 Employee Benefit Research Institute. Savings Medicare Beneficiaries Need for Health Expenses: Some Couples Could Need as Much as \$350,000, p. 2. Employee Benefit Research Institute Notes. 2017;38(1). [https://www.ebri.org/pdf/notespdf/EBRI\\_Notes\\_Hlth-Svgs.v38no1\\_31Jan17.pdf](https://www.ebri.org/pdf/notespdf/EBRI_Notes_Hlth-Svgs.v38no1_31Jan17.pdf). Published January 31, 2017. Accessed April 3, 2017.

## HEALTH SAVINGS TARGETS FOR FUTURE RETIREES

Less research has been published on savings targets for future retirees<sup>12</sup>, but the projected annual growth rate for health care expenditures – estimated to average 5.6 percent annually between 2016 and 2025 – is a key driver of recommended health care savings targets.<sup>13</sup> For example:

- A 55-year-old couple retiring in ten years will need approximately \$465,000 in today's dollars to cover projected premiums for Original Medicare, a Part D prescription drug plan, and a Medigap policy, as well as projected out-of-pocket dental, vision, and other expenses not inclusive of long-term care.<sup>14</sup>
- A 45-year-old couple planning to retire at the age of 65 is expected to need slightly more than \$590,000 in today's dollars to cover their premiums and anticipated out-of-pocket health care costs during retirement.<sup>15</sup>

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***National spending on prescription drugs is expected to increase 75% between 2016 and 2025.<sup>13</sup>***

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## COMPARING RECOMMENDED HEALTH CARE SAVINGS TARGETS TO ACTUAL SAVINGS

To better understand the degree to which current and future retirees are prepared for future health care costs, current and future retirees' actual retirement savings were compared to recommended health care savings targets. The results are concerning, **with a majority of current and future retirees having less in total retirement savings than what experts recommend saving for health care costs alone.**

- Half (50 percent) of retirees age 65+ have saved \$100,000 or less in **total** household retirement savings, including 30 percent who have saved only \$20,000 or less for total household retirement expenses – far less than what is recommended for health care costs alone for a couple or single person in retirement.<sup>16</sup>
- Similar to their retired counterparts, 48 percent of non-retired adults age 50 to 64 have \$100,000 or less in **total** retirement savings, and 24 percent have saved \$20,000 or less. These amounts are well below the estimated \$465,000 that a 55-year-old couple will need in ten years to cover their health care costs alone during retirement.<sup>17</sup>

In contextualizing these savings gaps, it's important to note the other financial obligations facing retirees, such as housing costs, debts, and other expenses, which make retirees' savings shortfalls for increasing health care costs all the more dire. For example, according to one government study, retired Americans age 65+ carry a higher mortgage debt burden than retirees did ten years ago.<sup>18</sup> Similarly, a higher percentage of consumers over age 60 also have auto loans compared to five years ago, and the number of consumers age 60+ with student loan debt – mostly owed for a child or grandchild's education – has quadrupled over the last decade, with the average balance growing from approximately \$12,000 to over \$23,000.<sup>19,20</sup>

12 Future retiree savings estimates are based on the assumption that a male-female couple will retire together at age 65 and have life expectancies of 87 and 89, respectively.

13 Centers for Medicare & Medicaid Services. National Health Expenditure Projections 2015 – 2025 Forecast Summary. <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/proj2016.pdf>. Updated March 2017. Accessed April 3, 2017.

14 HealthView Services 2016 Retirement Health Care Costs Data Report. HealthView Insights. [http://www.hvsfinancial.com/PublicFiles/2016\\_RHCC\\_Data\\_Report.pdf](http://www.hvsfinancial.com/PublicFiles/2016_RHCC_Data_Report.pdf). Published May 2016. Accessed April 3, 2017.

15 Ibid.

16 Employee Benefit Research Institute. Savings Medicare Beneficiaries Need for Health Expenses: Some Couples Could Need as Much as \$350,000, p. 2. Employee Benefit Research Institute Notes. 2017;38(1). [https://www.ebri.org/pdf/notespdf/EBRI\\_Notes\\_Hlth-Svgs.v38no1\\_31Jan17.pdf](https://www.ebri.org/pdf/notespdf/EBRI_Notes_Hlth-Svgs.v38no1_31Jan17.pdf). Accessed April 3, 2017.

17 HealthView Services 2016 Retirement Health Care Costs Data Report. HealthView Insights. [http://www.hvsfinancial.com/PublicFiles/2016\\_RHCC\\_Data\\_Report.pdf](http://www.hvsfinancial.com/PublicFiles/2016_RHCC_Data_Report.pdf). Published May 2016. Accessed April 3, 2017.

18 Office for Older Americans. Snapshot of Older Consumers and Mortgage Debt. Consumer Financial Protection Bureau. [http://files.consumerfinance.gov/f/201405\\_cfpb\\_snapshot\\_older-consumers-mortgage-debt.pdf](http://files.consumerfinance.gov/f/201405_cfpb_snapshot_older-consumers-mortgage-debt.pdf). Published May 2014. Accessed April 3, 2017.

19 Li, W and Goodman, L. Americans' Debt Styles by Age and Over Time. Urban Institute. <http://www.urban.org/sites/default/files/publication/72976/2000514-Americans-Debt-Styles-by-Age-and-over-Time.pdf>. Published November 2015. Accessed April 3, 2017.

20 Office for Older Americans and Office for Students and Young Consumers. Snapshot of Older Consumers and Student Loan Debt. Consumer Financial Protection Bureau. [http://files.consumerfinance.gov/f/documents/201701\\_cfpb\\_OA-Student-Loan-Snapshot.pdf](http://files.consumerfinance.gov/f/documents/201701_cfpb_OA-Student-Loan-Snapshot.pdf). Published January 2017. Accessed April 3, 2017.

## Many Current and Future Retirees Have Less in Total Retirement Savings Than What Experts Recommend for Health Care Costs Alone



# ALMOST HALF

of retirees age 65+ and non-retired adults aged 50 to 64  
have saved **\$100,000 or less in total household retirement savings**

The preparedness of future retirees for health care expenses is also of concern, not only because of the low amounts currently saved but also because of changing dynamics in retirement planning. The percentage of private-sector workers enrolled in a defined benefit plan, (i.e., an employer pension plan), has dropped from 28 percent in 1979 to two percent in 2013, and the percentage of this population enrolled in defined contribution plans, such as 401(k) plans, has risen from seven percent to 33 percent over the same time period.<sup>21</sup> Given this shift in retirement plan participation, the next generation of retirees will be responsible for saving more on their own to cover expenses during retirement.

Perhaps in response to their low levels of retirement savings, more than half (53 percent) of adults age 50 to 64 report that they don't plan to retire until they reach 66 years of age or older – with 16 percent reporting that they plan to keep working after age 70. This finding is consistent with other research that found American workers are slowly adjusting their expectations on retirement age upward.<sup>22</sup> However, since 2010 just about half of retirees have left the workforce earlier than planned, which suggests that many future retirees may retire – and begin drawing upon their retirement savings – earlier than they intend.<sup>23</sup>

<sup>21</sup> Employee Benefit Research Institute. FAQs About Benefits—Retirement Issues. Benefit FAQs. <https://www.ebri.org/publications/benfaq/?fa=retfaq>. Accessed April 3, 2017.

<sup>22</sup> Retirement Confidence Survey. 2016 RCS Fact Sheet #2: Expectations About Retirement. Employee Benefit Research Institute. [https://www.ebri.org/files/RCS\\_16\\_FS-2\\_Expectations1.pdf](https://www.ebri.org/files/RCS_16_FS-2_Expectations1.pdf). Accessed April 3, 2017.

<sup>23</sup> Ibid.

# UNCERTAINTY ABOUT SAVINGS FOR FUTURE HEALTH CARE COSTS

Survey results also showed that **a large percentage of current and future retirees are unsure about how much they should save to cover their future health care expenses in retirement** – indicating a need for greater transparency as well as financial literacy about the costs of both anticipated and unexpected health care needs. Of note:

- Among retirees age 65+, 50 percent reported that they did not know or had no opinion on how much they will need for health care costs during retirement, and 45 percent could not say how much of their retirement savings is allocated to health care costs.
- Similar gaps in awareness are present among the younger population, as 36 percent of non-retired adults age 50 to 64 did not know or had no opinion on how much money their households will need for health care costs during retirement, and 40 percent could not say how much of their retirement savings is allocated to health care costs.

When asked how much money their households will need for health care costs during retirement:



**OF RETIREES AGED 65+  
DON'T KNOW OR HAVE  
NO OPINION**



**OF NON-RETIRED ADULTS  
AGED 50-64 DON'T KNOW  
OR HAVE NO OPINION**

## KEY DIFFERENCES IN SAVINGS

Lastly, the analysis examined savings rates by the health status and other personal characteristics of survey respondents in order to better understand how these key characteristics relate to retirement savings.

The findings indicate that **current and future retirees with retirement savings of \$20,000 or less are more likely to be in poor health, have chronic disease, and have lower incomes than those with higher rates of retirement savings.** These individuals – many of whom will likely have significant health care needs – are also likely to encounter significant economic barriers in paying for their care. For example:

- Nearly half (44 percent) of retirees age 65+ in fair or poor health have saved \$20,000 or less for retirement, compared to 21 percent of retirees in very good or excellent health. Looking at future retirees, 36 percent of adults age 50 to 64 in fair or poor health have saved \$20,000 or less for retirement, compared to 20 percent of future retirees in very good or excellent health.
- Thirty-three percent of retirees age 65+ (and 24 percent of future retirees) with chronic disease have \$20,000 or less in retirement savings, while 10 percent of retirees (and 14 percent of future retirees) with chronic disease have \$50,000 to \$100,000 in savings.
- Thirty-nine percent of future retirees with household incomes between \$35,000 and \$50,000 have \$20,000 or less in retirement savings. In contrast, only 10 percent of future retirees with household incomes between \$90,000 and \$135,000 have household retirement savings at or below \$20,000.

Health status is of particular interest when planning for retirement because average out-of-pocket health care spending is generally higher for those in poor health. One study found that Medicare beneficiaries in poor health spent 2.5 times more on average out-of-pocket costs than their peers in excellent health.<sup>24</sup> Research has also found that poor health, along with low levels of education, increases the likelihood that individuals pursue early retirement, either by enrolling in the Social Security Disability Insurance program or claiming Social Security retirement benefits early.<sup>25</sup>

24 Cubanski J, Swoope C, Damico A, Neuman T. How Much Is Enough? Out-of-Pocket Spending Among Medicare Beneficiaries: A Chartbook. Kaiser Family Foundation. <http://kff.org/medicare/report/how-much-is-enough-out-of-pocket-spending-among-medicare-beneficiaries-a-chartbook/>. Published July 2014. Accessed April 3, 2017.

25 Venti S and Wise D. The Long Reach of Education: Early Retirement. *Journal on the Economics of Aging*. 2015; 6. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4671205/>. Accessed April 3, 2017.

## PREPARING FOR A HEALTHY RETIREMENT

Combined with findings from the 2016 *America's Health Rankings Senior Report*, this analysis raises concerns for the overall health and financial security of current as well as future seniors during retirement. United Health Foundation and the Alliance for Aging Research seek to raise awareness of the opportunities to better support seniors' whole-person health as well as prompt dialogue on the importance of affordability and transparency in health care costs for both current and future seniors.

The 2016 *America's Health Rankings Senior Report* compared middle-aged (50-64 years old) Americans from 1999 to middle-aged Americans as of 2014, and found that the next generation of seniors face serious health challenges, including:

- An increase in the prevalence of diabetes in middle-aged adults by almost 55 percent.
- An increase in the prevalence of obesity in middle-aged adults by 25 percent.
- A decrease in the percentage of middle-aged adults reporting very good or excellent health by 9.4 percent.

## About America's Health Rankings®

America's Health Rankings® is the longest running annual assessment of the nation's health on a state-by-state basis. For nearly three decades, America's Health Rankings has analyzed a comprehensive set of behaviors, public and health policies, community and environmental conditions, and clinical care data to provide a holistic view of the health of the nation. America's Health Rankings is a platform driven by United Health Foundation. For more information, visit [www.AmericasHealthRankings.org](http://www.AmericasHealthRankings.org).

## About United Health Foundation

Through collaboration with community partners, grants and outreach efforts, United Health Foundation works to improve our health system, build a diverse and dynamic health workforce and enhance the well-being of local communities. United Health Foundation was established by UnitedHealth Group (NYSE: UNH) in 1999 as a not-for-profit, private foundation dedicated to improving health and health care. To date, United Health Foundation has committed nearly \$358 million to programs and communities around the world. We invite you to learn more at [www.unitedhealthgroup.com/SocialResponsibility](http://www.unitedhealthgroup.com/SocialResponsibility) or follow [Facebook.com/UHGGives](https://www.facebook.com/UHGGives).

## About Alliance for Aging Research

The Alliance for Aging Research is the leading nonprofit organization dedicated to accelerating the pace of scientific discoveries and their application to vastly improve the universal human experience of aging and health. The Alliance was founded in 1986 in Washington, D.C., and has since become a valued advocacy organization and a respected influential voice with policymakers. For more information, please visit [www.agingresearch.org](http://www.agingresearch.org).



Guided by a passion to help people live healthier lives, United Health Foundation provides helpful information to support decisions that lead to better health outcomes and healthier communities. The Foundation also supports activities that expand access to quality health care services for those in challenging circumstances and partners with others to improve the well-being of communities.

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