2019 RETIREMENT HEALTHCARE COSTS BRIEF

Note to the reader: *For several years, HealthView Services – the leader in healthcare cost-projections for the financial services industry – composed its annual Retirement Healthcare Costs Data Report. This comprehensive paper – complete with short- and long-term cost projections and detailed case studies – examined the impact of new healthcare legislation and industry trends on retirement medical expenses. This year, through expanded research, the firm has shifted its institutional focus to also include pre-retirement healthcare cost projections, which can be found in our upcoming white paper, "High Deductible Health Plans – One Approach to Long-Term Healthcare Savings."*

We understand that many of our followers and clients both appreciate and rely on the yearly Data Report; therefore, in lieu of a more extensive paper, this Brief will unveil our latest data projections and offer fundamental insights on the future of healthcare in retirement.

Assumptions

HealthView Services draws upon healthcare claims from 530 million individual cases, as well as actuarial and government data, to forecast retirement healthcare costs. Projections include Medicare Parts B and D, supplemental insurance Plan G premiums, and dental premiums. Total lifetime projections comprise all out-of-pocket (OOP) expenses related to hospitalization, doctors and tests, prescription drugs, dental, vision, hearing services, and hearing aids. Investment solutions cover all of these costs, less Medicare Part B premiums, which are typically deducted directly from Social Security benefits.

Calculations assume actuarial longevity for different health conditions, genders, and ages, and are shown as national averages (unless otherwise stated). The Brief uses future-value dollar estimates and does not include Medicare Part A premiums (no cost in retirement for most Americans) or IRMAA surcharges.

As with any aspect of retirement planning, actual costs for individuals may vary from these averages.

Retirement Health Cost Projections

Healthcare will continue to be one of the leading – if not the leading – expenses that Americans will face in retirement. A healthy 65-year-old couple living to 87 (male) and 89 (female) is expected to spend $606,337 on lifetime medical expenditures.

It is important to note that while the total is substantial, costs are distributed over a combined 48 years of care. Also, the trajectory is not linear: initial expenses may be manageable, but as the couple ages, healthcare inflation, supplemental insurance age-rating, and increased utilization of out-of-pocket services will increase costs at a noticeably faster rate.

Table A: Cost Projections for a 65-Year-Old Couple Every Five Years

	65	70	75	80	85	Total
Monthly	$1,004	$1,339	$1,809	$2,379	$3,153	
Annual	$12,052	$16,068	$21,706	$28,552	$37,839	$606,337

Over the first twenty years, this couple's annual healthcare spend will more than triple, increasing their liability as they become more financially vulnerable on a (presumably) fixed budget.

Retirement medical expenses for younger Americans are markedly higher due to the compounding effect of healthcare cost inflation over time. The good news? Even though a 55-year-couple will spend nearly $1 million on retirement medical expenses, a one-time investment today of $249,280 (assuming a 6% rate of return), will cover all future healthcare obligations. Table B highlights the importance for pre-retirees to plan ahead.

Table B: Retirement Cost Projections for Couples in Ten Year Increments

Ages in 2019	Year of Retirement	Premiums	OOPs	Total
65	2019	$419,262	$187,075	$606,337
55	2029	$674,097	$274,016	$948,114
45*	2039	$1,154,452	$417,827	$1,572,278

*Life expectancy for the wife is 90, not 89, due to actuarial variance in life expectancy based on year of birth.

Healthcare Cost Inflation

As stated earlier, one of the leading causes of retirement healthcare spending is compounding healthcare inflation, which will average 4.9% annually for the foreseeable future.

Table C: Projected Inflation Rates per Cost Category, 2020-2028

Service	Inflation Rate
Premiums	
Part B	5.9%
Part D	4.9%
Supplemental Insurance (Medigap)	3.4%
Out-of-Pocket Costs	
Hospitals	1.4%
Doctors and Tests	2.8%
Prescription Drugs	1.9%
Dental	4.5%
Hearing Services/Aids	3.0%
Vision	3.0%

Rates on premiums will remain significantly higher than traditional U.S. inflation, CPI, and other growth metrics. (Supplemental insurance premiums include age-rating, which accounts for increased premiums based on one's age.) As Table C indicates, inflation on out-of-pocket expenses is lower, but does not factor that people utilize services more frequently as they age, and may spend more on hospitalization, various doctor visits, prescription drugs, vision, and hearing.

Other Data Highlights

- **Many retirees rely on Social Security to help fund retirement, but a significant portion of benefits will be absorbed by healthcare spending.** In the first year of retirement, an average, healthy 66-year-old couple will spend 43% of their Social Security check on medical expenses. By the time they are both 87, the couple will spend 73 cents of every dollar they receive from Social Security on healthcare - even after claiming at Full Retirement Age (FRA) and including annual cost-of-living adjustments (COLAs).
- **Longevity is one of the most important factors in calculating total costs.** If the couple from Table A (previous page) were to live two years longer than their actuarial longevity estimates (89 and 91 instead of 87 and 89 respectively), they would spend another $96,204 on healthcare during those four extra years.
- **Those with chronic conditions will spend more annually, but less throughout retirement.** Due to a longer lifespan (ten more years, on average), a healthy 55-year-old man will spend $437,713 on retirement health expenses, $224,698 more than a type 2 diabetic of the same age (though the healthy individual's annual outlays will be lower).
- **Long-term care (LTC) spending - if needed - can be a serious end-of-life burden.** According to the latest data, a 50-year-old couple will spend approximately $585,205 combined for one year each of skilled nursing care.* Regional costs may be much higher: a Boston, MA resident would pay approximately double the national average at a nursing home.
- **Addressing tomorrow's costs with investment plans today is advisable:** A healthy 50-year-old woman who wants to cover total retirement healthcare costs (including one year in an assisted living facility), but applies an 80% income replacement ratio and assumes a 3% ongoing inflation rate for medical expenses, will be underfunded. To bridge this gap and account for higher healthcare inflation and losing employer-sponsored coverage, she could make a $37,059 lump-sum investment today or dedicate $139 bi-weekly to her retirement savings plan for 15 years.
- **New legislation may alleviate some costs for higher earners.** As detailed in our recent paper, "Medicare Surcharges: The Impact of Indexing IRMAA Brackets," in 2020 (and for the first time in about a decade), Medicare means-testing surcharges will be curbed as modified adjusted gross income (MAGI) thresholds will now adjust to CPI-U growth. Still, as healthcare costs continue to shift to individuals, Medicare expenses may increase elsewhere, or coverage and services could diminish.

* National average annual spending could range from $150,000 to $300,000, depending on the level of care needed (home health care, assisted living, or skilled nursing).

Conclusion

Forty-four million Americans (approximately 15% of the population) are currently on Medicare. This number is expected to swell to 79 million over the next decade, which will presumably result in fewer covered services and more financial responsibility passed on to retirees. Combine this enrollment expansion with an inflation rate that is expected to double Social Security COLAs and a very clear picture emerges: Americans who fail to save for future medical expenses may not be able to afford quality care through retirement.

While the projections may seem dire, those with an adequate time horizon who adopt a consistent investment strategy can offset some of the burden. On another positive note, moderate to higher earners who may have been destined for substantial IRMAA penalties may now avoid (or at the very least, face lower) surcharges as income thresholds adjust to CPI-U growth. Again, smart investing, especially in products that do not increase MAGI, may hold the key to reducing the healthcare burden.