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How Health Can Affect
Your Wealth in Retirement

PREVIEW



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How Can Health Affect Your Wealth?

When planning for retirement, you will need to consider a number of expenses, and one of the most important involves health-related costs. Along the way, you may encounter a few truths and falsehoods about health care and retirement.



Does good health mean lower health-care costs in retirement?

Not necessarily.

Although good health generally means fewer trips to the doctor and fewer treatments and medications during retirement, it can also lead to a much longer life span — which means you'll be paying for all your expenses, including health care, for a relatively long time.



Will Medicare cover all your health-care expenses in retirement?

No.

People often underestimate the cost of health care in retirement — even with Medicare. Medicare generally covers only about 60 percent of the cost of health-care services for beneficiaries age 65 and older. Out-of-pocket costs may include premiums, deductibles, copays, and coinsurance. Your costs will vary depending on the coverage you choose and the medical services you need.

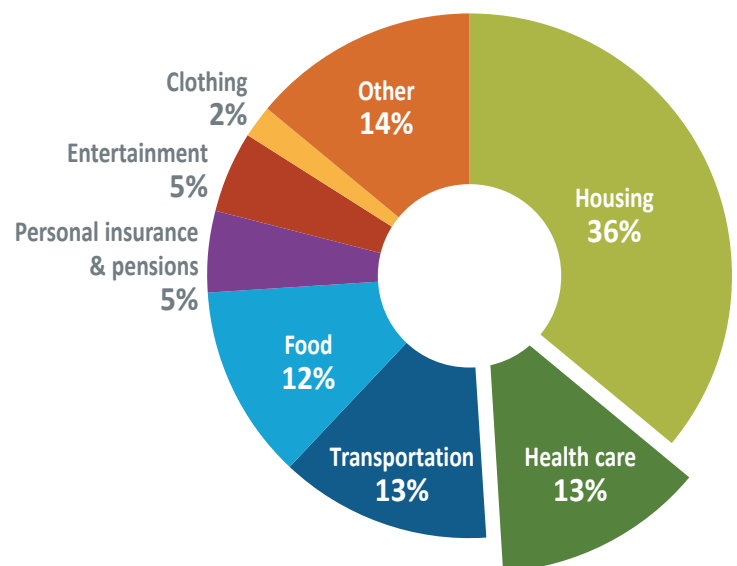
Medicare does not pay for many health-related items such as eyeglasses, hearing aids, and dental care, which can take a big bite out of your savings.

Source: Employee Benefit Research Institute, 2022

Health-Care Costs as a Percentage of Income

According to the Bureau of Labor Statistics, health care was tied with transportation as the second-highest expense category behind housing for Americans age 65 and older in 2021. This age group spent an average of \$7,030 on health-care expenses, and the majority of this went to paying costs associated with health insurance (including Medicare).

Source: U.S. Bureau of Labor Statistics, 2022 (2021 data)





How many people have tried to calculate how much they might need to cover retirement health-care costs?

Less than 50% of people age 55 and older have tried to figure this out (including those who are already retired).

Source: Employee Benefit Research Institute, 2022

How Much Is Enough?

According to the Employee Benefit Research Institute, a 65-year-old couple in fairly good health who retired in 2021 may need about \$296,000 to have a good chance of covering their Medicare, Medigap, and out-of-pocket prescription drug expenses in retirement.

Source: Employee Benefit Research Institute, 2022 (based on savings needed to cover premiums and deductibles for Medicare Part B and Part D, premiums for Medigap Plan G, and median out-of-pocket prescription drug expenses)

The following table estimates how much you might need to cover health care in retirement based on your current age, a hypothetical investment rate of return during retirement, and a retirement age of 65.

Assumed rate of return on investments			
Current age	2%	4%	6%
45	\$557,025	\$427,548	\$336,678
50	\$457,834	\$351,413	\$276,725
55	\$376,306	\$288,836	\$227,447
60	\$309,296	\$237,402	\$186,945
65	\$254,219	\$195,127	\$153,655

The average out-of-pocket health-care costs used in this table are based on 2021 data from the U.S. Bureau of Labor Statistics Consumer Expenditure Survey. Health-care costs include payments for health insurance, medical services, drugs, and medical supplies. The average out-of-pocket cost includes essentially all out-of-pocket costs, including premiums, deductibles, copays, and costs not covered by Medicare or other insurance.

Costs are adjusted for 4% inflation in years after 2021 and projected out to age 90. Annual health-care costs are assumed to occur ratably at the end of each month. Figures do not include the effects of federal or state taxes, or any investment fees or expenses.

This is a hypothetical example used for illustrative purposes only and does not reflect the performance of any specific investment or portfolio. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Five Factors That Can Affect Health-Care Costs

Many factors can affect your overall health-care costs in retirement. Here are five primary considerations:

- Overall health
- Age
- Inflation
- Gender
- Where you live



1. Overall Health

Health-care costs can vary considerably based on your personal situation. According to the Centers for Disease Control and Prevention, the leading causes of death and disability — including heart disease, diabetes, and cancer — are also among the nation’s leading drivers of health-care costs.

You’ll need to consider the cost of medications and treatments for these and other common conditions associated with aging, such as arthritis, if they apply to your situation.

Source: Centers for Disease Control and Prevention, 2021

Americans age 65 and older spent an average of \$726 on prescription drugs in 2021.

Source: U.S. Bureau of Labor Statistics, 2022

2. Your Age

Not surprisingly, health-care costs tend to rise with age. And even if your basic expenses don’t change much, inflation will certainly impact the costs associated with them. So in your planning, it’s wise to factor in a regular increase in health-care spending.

Average annual health-care costs, by age



Ages 45–54
\$5,656



Ages 55–64
\$6,093



Ages 65–74
\$6,966



Ages 75+
\$7,123

Source: U.S. Bureau of Labor Statistics, 2022 (2021 data)

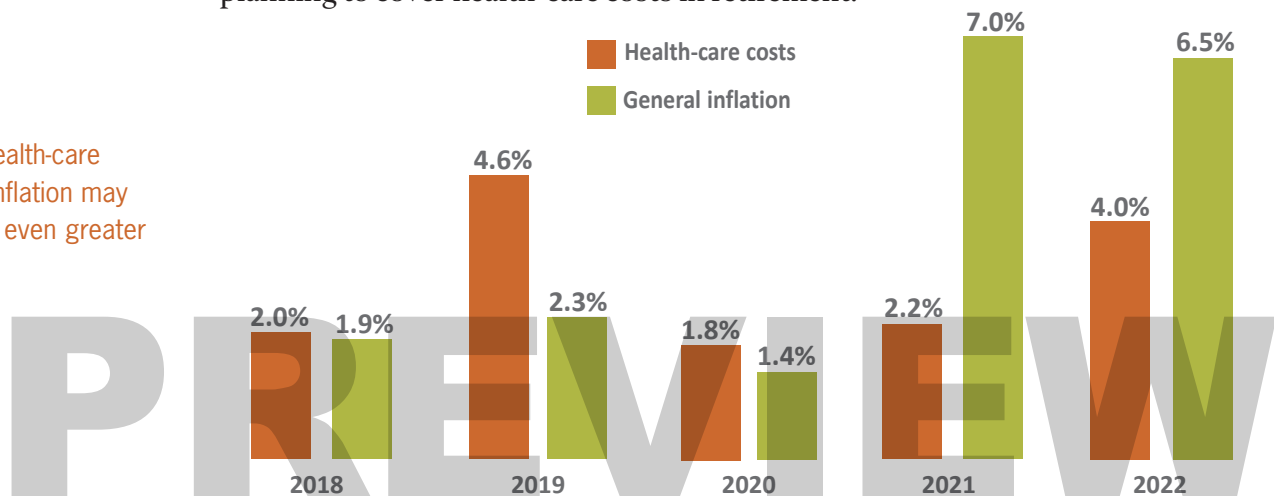
Five Factors That Can Affect Health-Care Costs

3. Inflation

The rise in the cost of goods and services over time — or inflation — is something you need to consider when planning for retirement expenses. However, in the arena of medical care, inflation may have an even greater impact.

Medical costs have often risen faster than the overall rate of inflation in recent years. Unusually high general inflation outpaced health-care inflation in 2021 and 2022, but you can expect medical costs to keep rising at a significant pace. This points to the need for realistic annual increases in health-care expenses in your planning to cover health-care costs in retirement.

In the health-care arena, inflation may have an even greater impact.



Source: U.S. Bureau of Labor Statistics, 2023

4. Gender

Gender is important because women, on average, outlive men. A 65-year-old man in average health has a 54 percent chance of living to age 85 and a 33 percent chance of living to age 90. A 65-year-old woman, on the other hand, has a 65 percent chance of living to age 85 and a 44 percent chance of living to age 90.

Chance of living to...	Age 85	Age 90
Man	54%	33%
Woman	65%	44%

For this reason, the estimated total out-of-pocket health-care spending for a single, healthy 65-year-old male Medicare beneficiary who retired in 2021 is \$17,000 less than that of a single, healthy 65-year-old female Medicare beneficiary.

Total out-of-pocket spending on health care in retirement

Man = \$142,000

Woman = \$159,000

Sources: Society of Actuaries, 2021; Employee Benefit Research Institute, 2022