



T.RowePrice

The Real Costs of Retiree Health Care

PresenterName Bolded CompanyName Not Bolded

Conference or Meeting Name

Date



Cable TV costs are enormous!

\$90,000
in retirement

Source: Assumes \$150/month, increased by a 3% inflation rate, over 30 years.



Retiree health care costs are enormous!

\$413,000
in retirement

Source: Spiegel, Jake, and Paul Fronstin, "Projected Savings Medicare Beneficiaries Need for Health Expenses Increased Again in 2023 — Some Couples Could Need as Much as \$413,000 in Savings," EBRI Issue Brief no. 599 (Employee Benefit Research Institute), January 18, 2024.

Why it's important

21%

of retirees with advisors receive advice on health care planning.

Source: T. Rowe Price Retirement Savings and Spending Study (2023).

Agenda

**Bringing the
challenge
down to size**

**The retiree
health care
journey**

Taking action



Bringing the challenge down to size

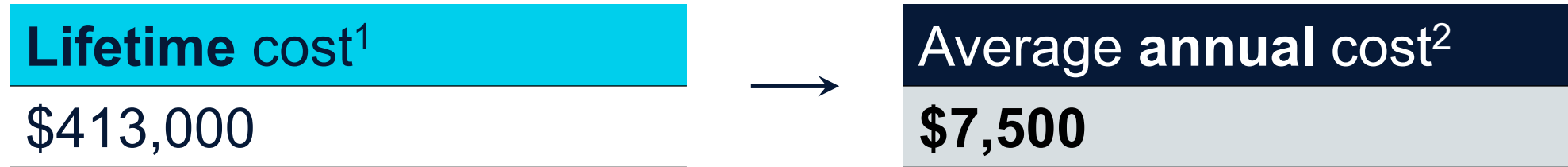




**There are three kinds of lies:
Lies, damned lies, and statistics**

— Attributed to Mark Twain

“Lifetime” expenses distort reality



Why is it problematic?

- Lump sum
- Extreme case
- For a household not an individual

¹ Spiegel, Jake, and Paul Fronstin, "Projected Savings Medicare Beneficiaries Need for Health Expenses Increased Again in 2023 — Some Couples Could Need as Much as \$413,000 in Savings," EBRI Issue Brief no. 599 (Employee Benefit Research Institute), January 18, 2024.

² U.S. Bureau of Labor Statistics, Table 1300, Consumer Expenditures Surveys, 2022.

Part of the overall budget

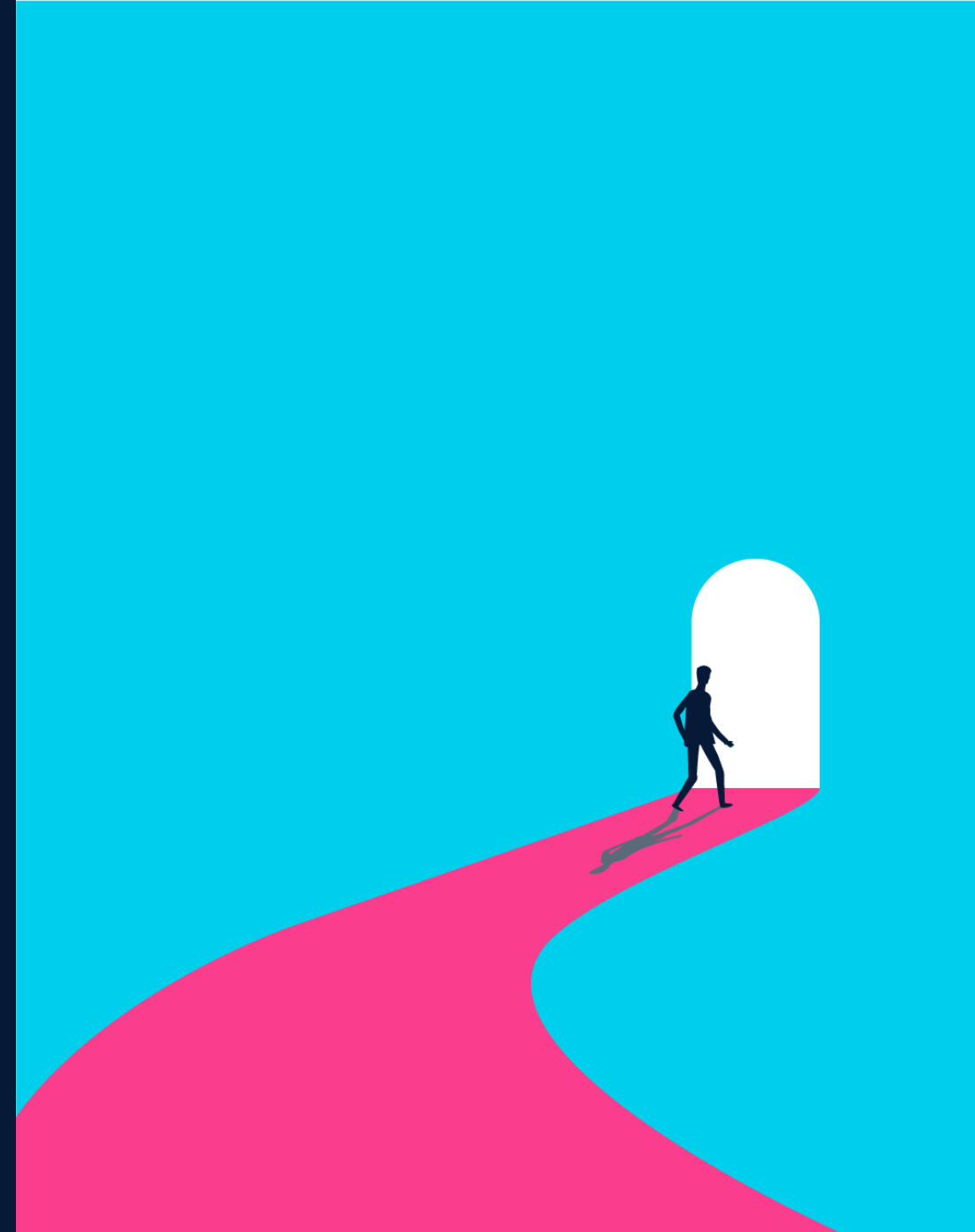
Expenses in retirement	Average annual cost
Housing	\$20,400
Transportation	\$8,200
Health care	\$7,500
Food	\$7,300
Entertainment	\$2,700

Source: U.S. Bureau of Labor Statistics, Table 1300, Consumer Expenditures Surveys, 2022.



The retiree health care journey

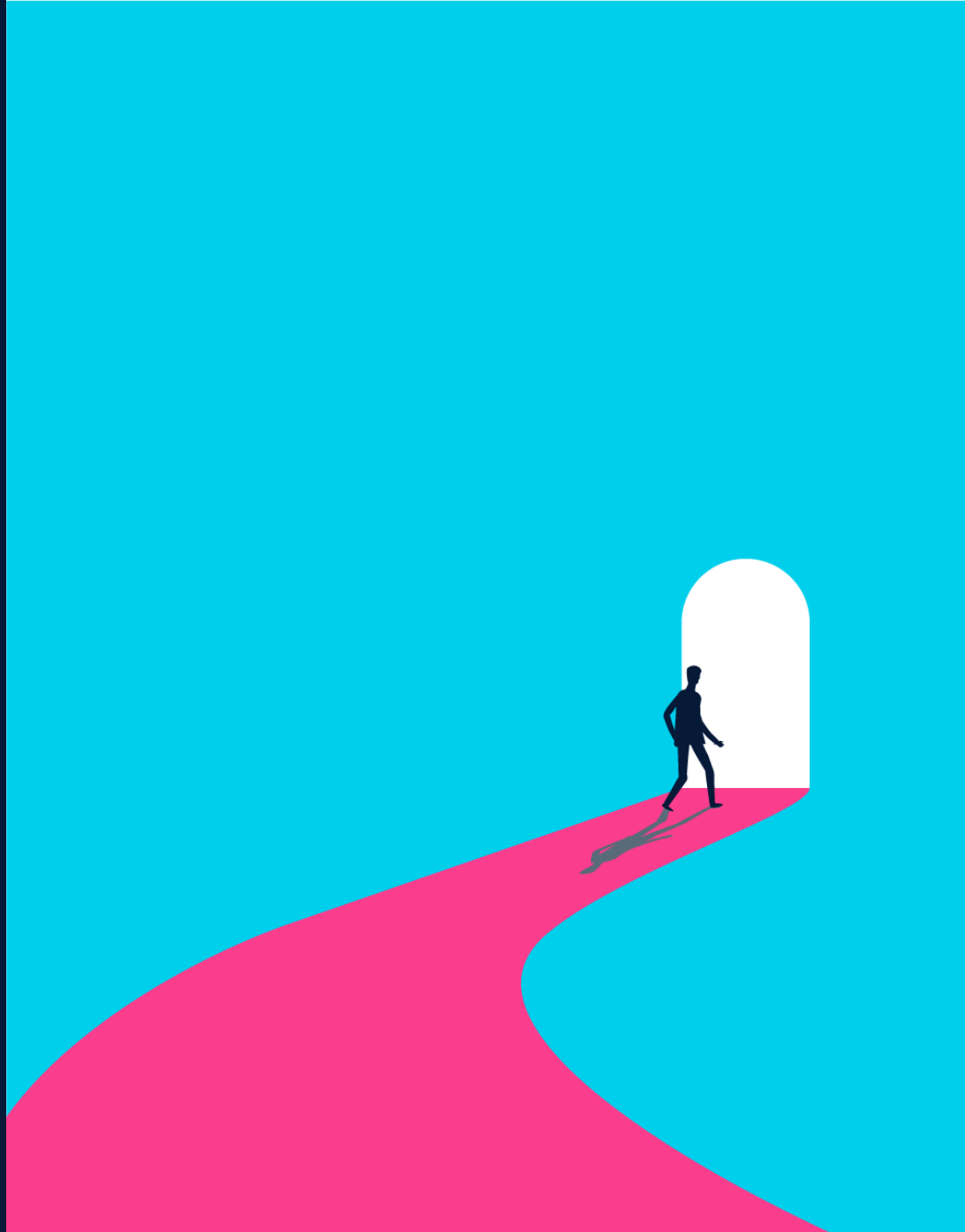
1. Total annual spending
2. Health care “shocks”
3. End-of-life spending



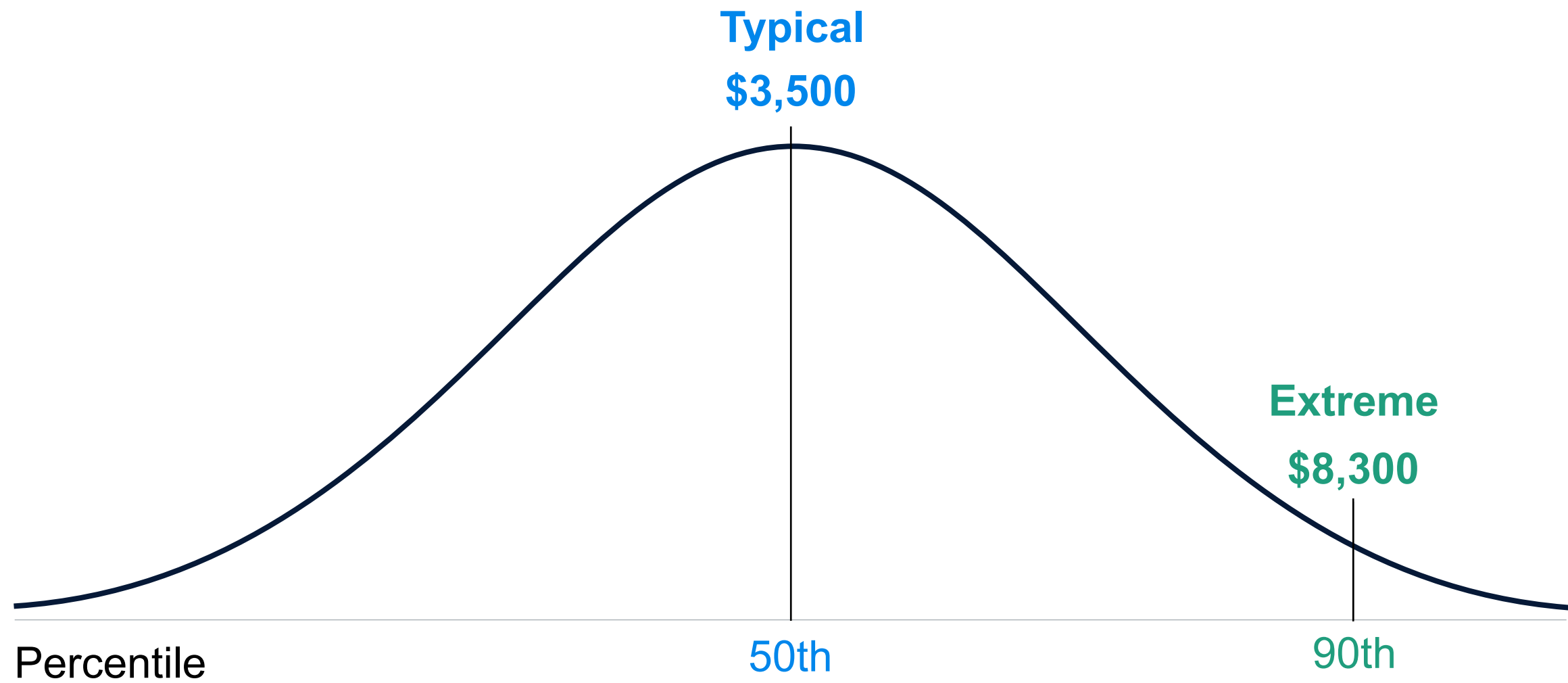


The retiree health care journey

1. Total annual spending
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3. End-of-life spending



Total annual health care spending



Source: T. Rowe Price estimates based on 2024 Medicare premiums and data from the Health and Retirement Study (2020). All costs are rounded to the nearest hundred.



Key cost input: Medicare

Three Medicare coverages

Medicare Advantage

- Services/drugs from a private insurance company's network

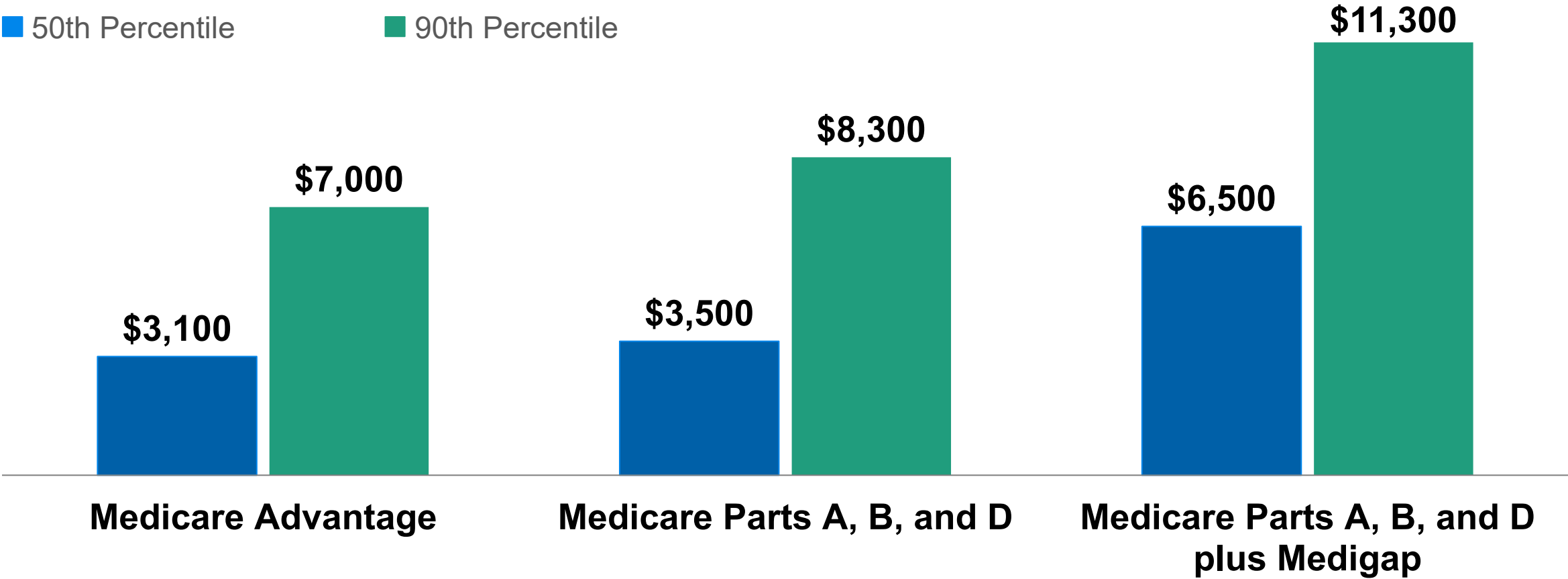
Medicare Parts A, B, and D

- Inpatient hospital
- Outpatient medical
- Prescription drug

Medicare Parts A, B, and D plus Medigap

- Adds supplementary insurance

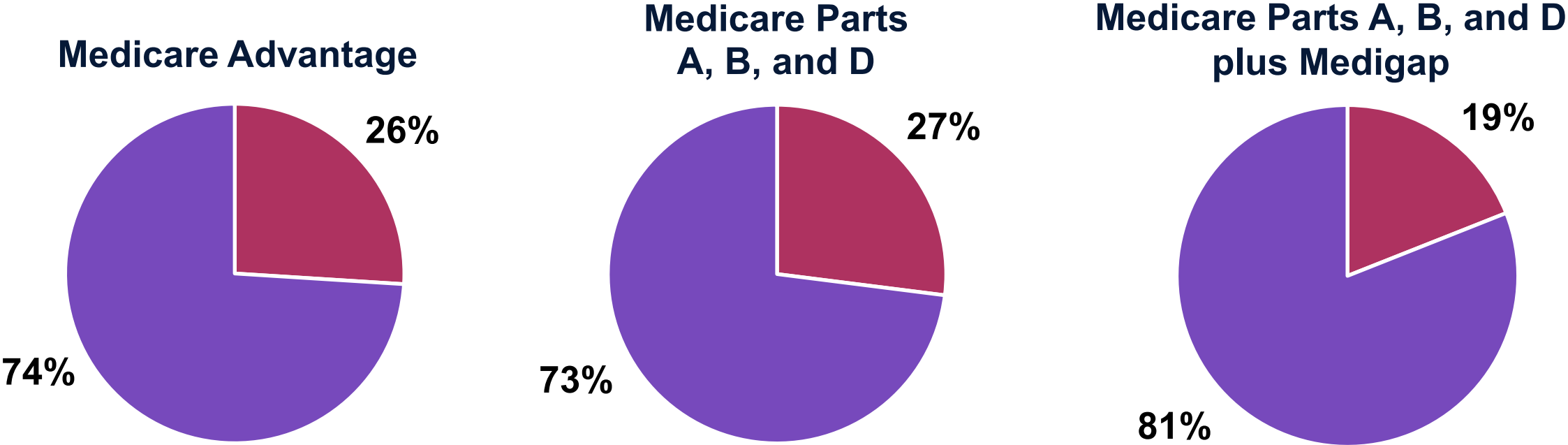
Total annual health care spending



Source: T. Rowe Price estimates based on 2024 Medicare premiums and data from the Health and Retirement Study (2020). All costs are rounded to the nearest hundred.

Premiums comprise the majority of annual health care costs

■ Premium costs (Fixed) ■ Out-of-pocket costs (Variable)

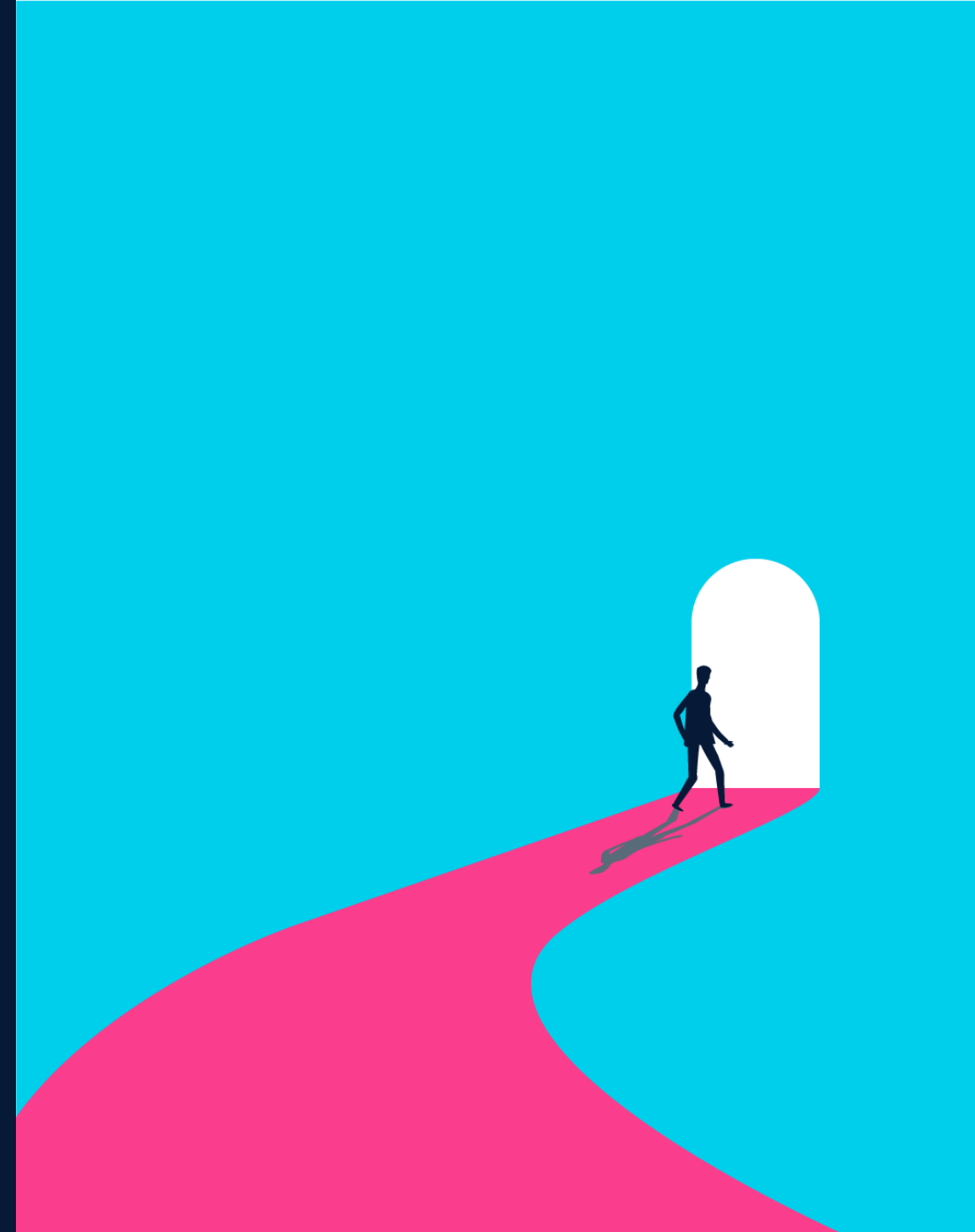


Source: T. Rowe Price estimates based on 2024 Medicare premiums and data from the Health and Retirement Study (2020). All costs are rounded to the nearest hundred.



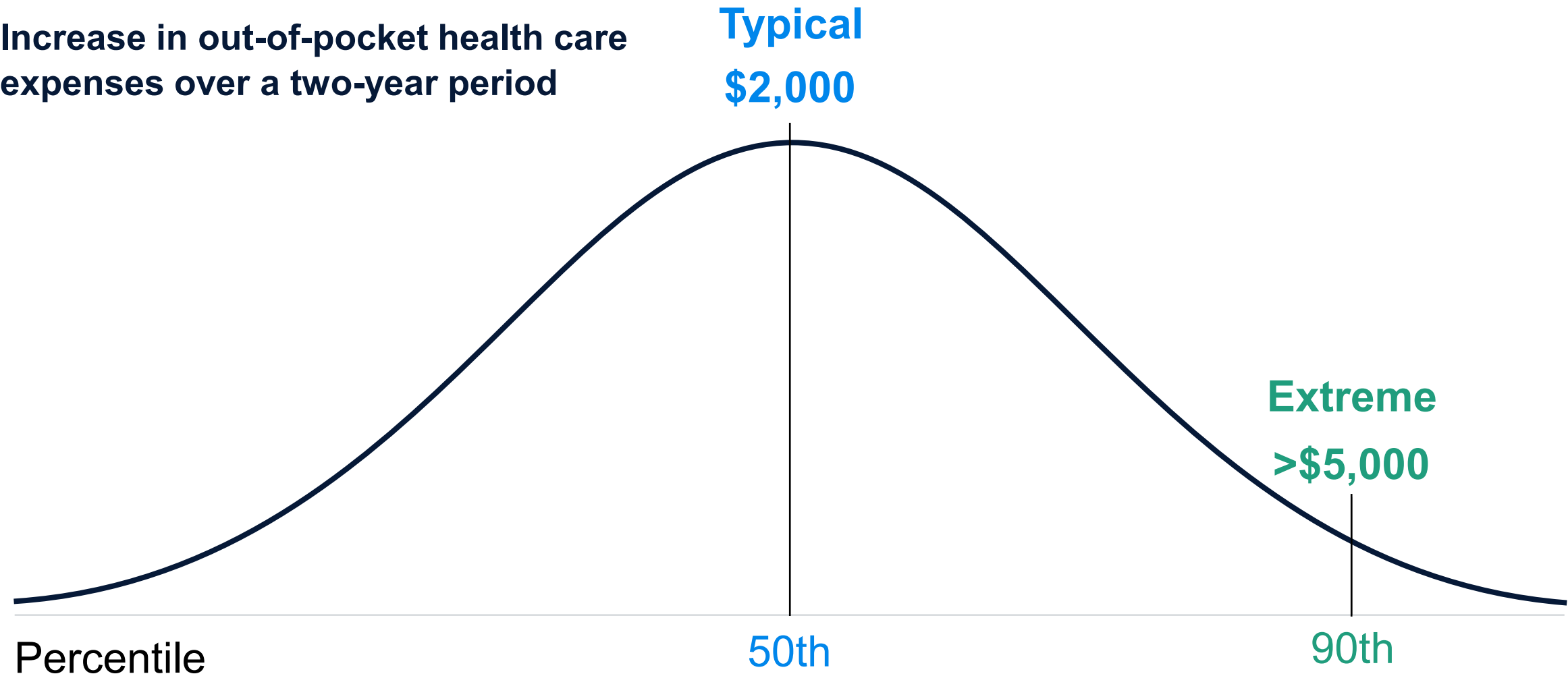
The retiree health care journey

1. Total annual spending
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Health care “shocks”

Increase in out-of-pocket health care expenses over a two-year period

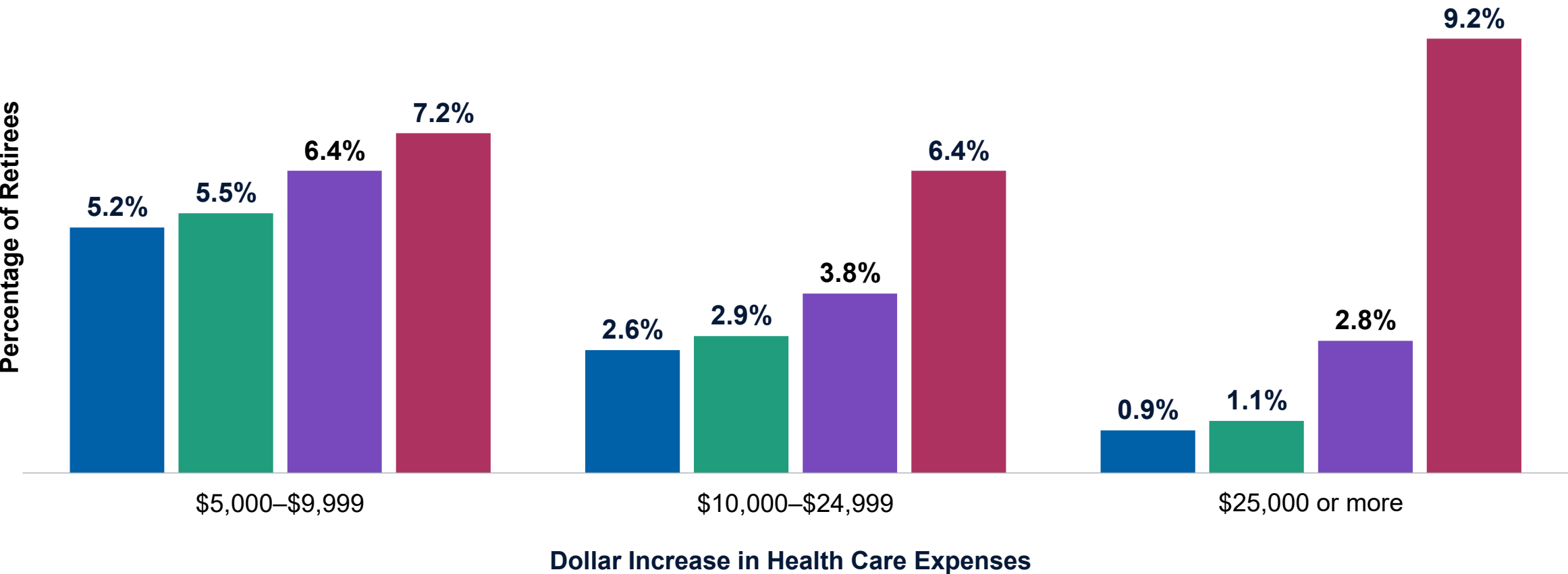


Source: T. Rowe Price estimates from the Health and Retirement Study (2012–2018). Expenses are measured in 2022 dollars.

Health care “shocks” increase with age

Increase in out-of-pocket health care expenses over a two-year period

Retiree Age Groups: 65–69 70–79 80–89 90+

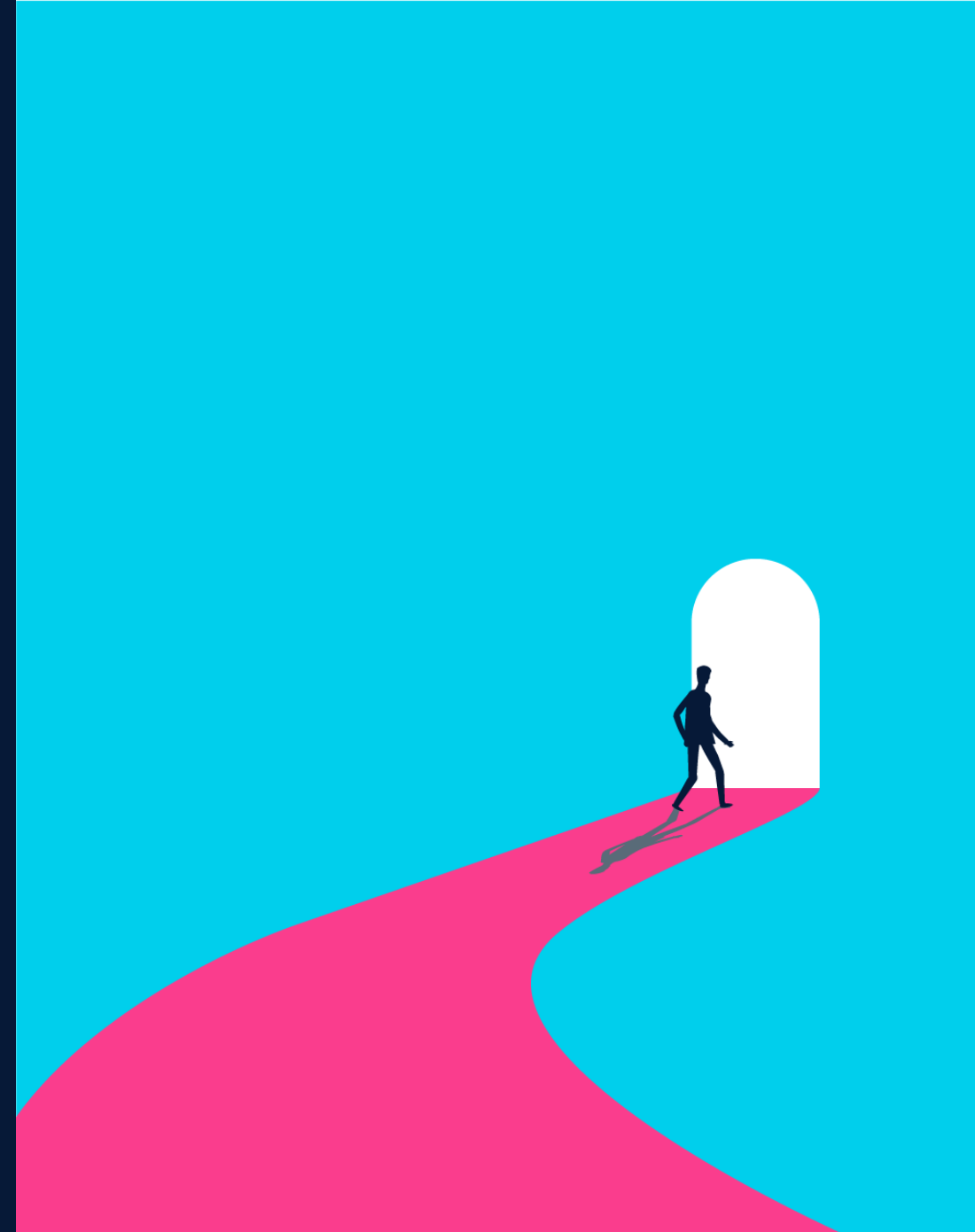


Source: T. Rowe Price estimates from the Health and Retirement Study (2012–2018). Expenses are measured in 2022 dollars.

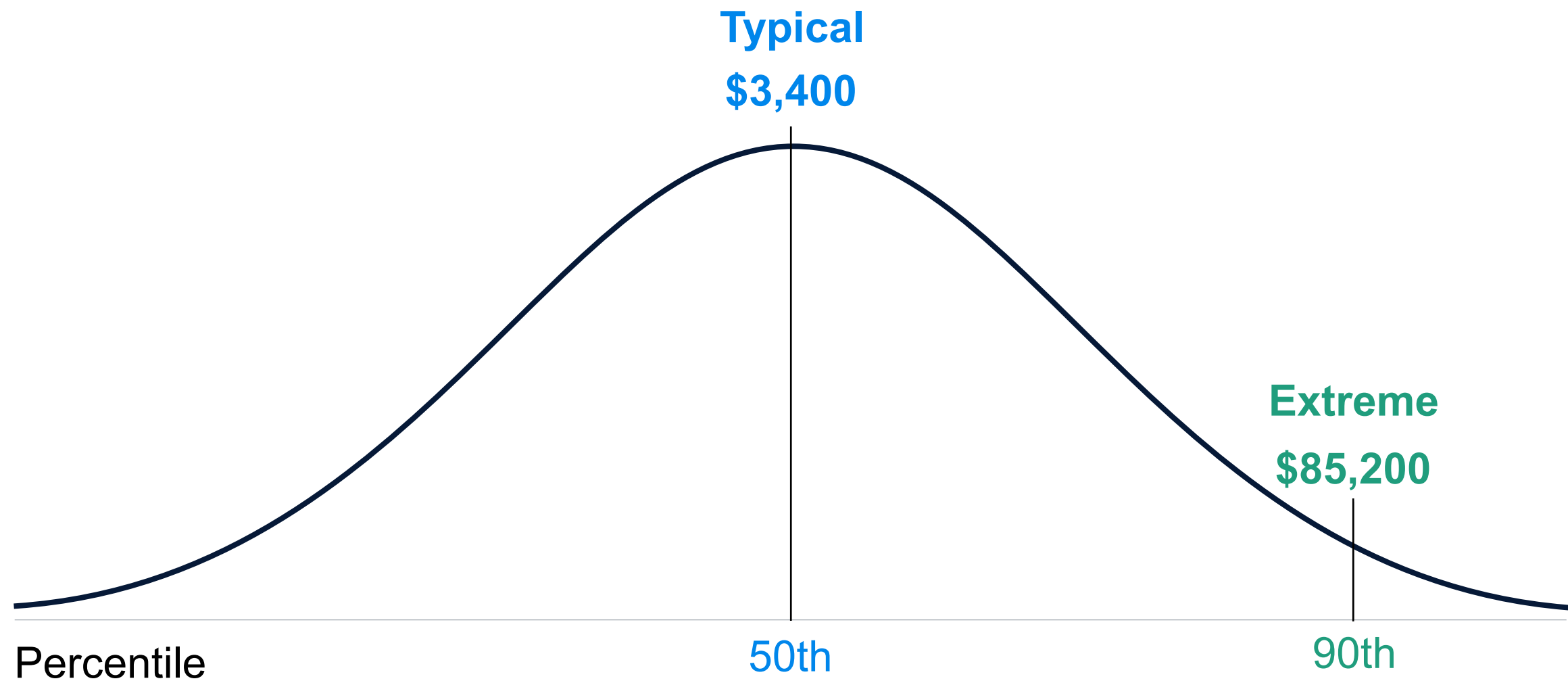


The retiree health care journey

1. Total annual spending
2. Health care “shocks”
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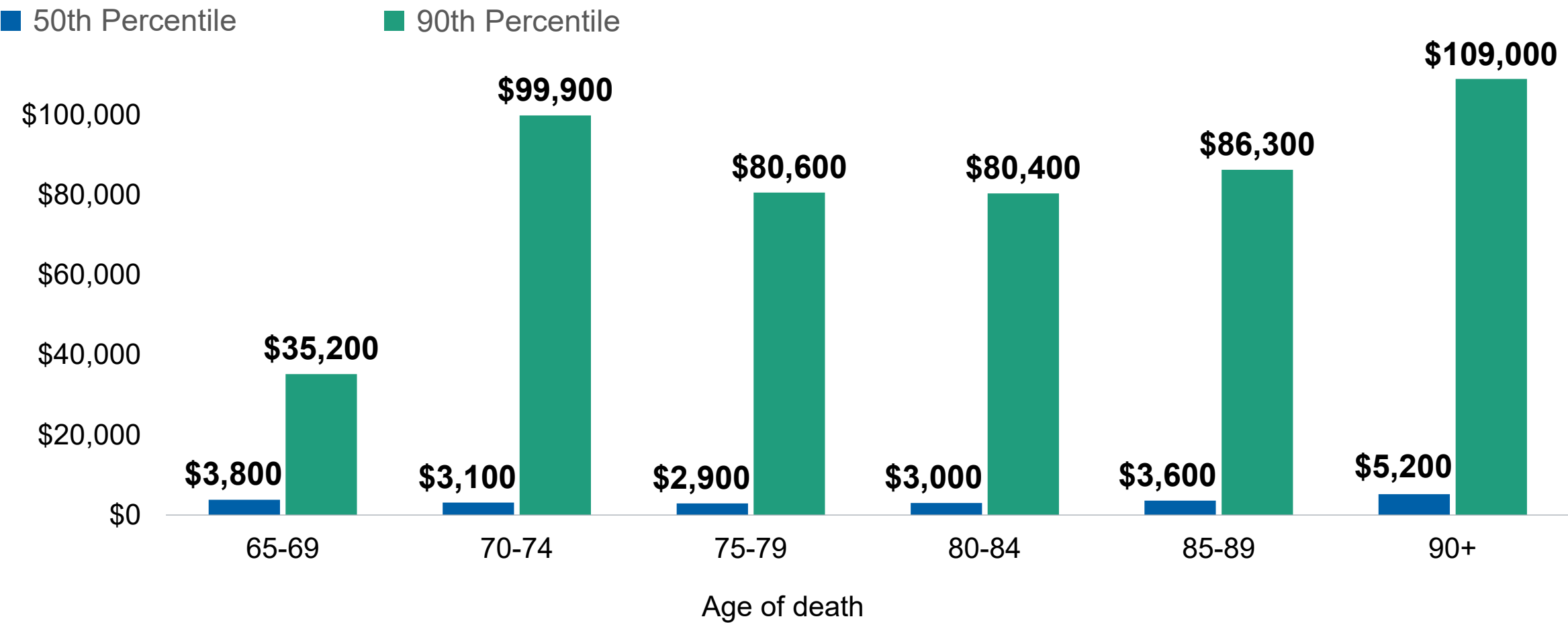
End-of-life spending: Out-of-pocket



Source: T. Rowe Price estimates from the Health and Retirement Study (2012–2018). Expenses are measured in 2022 dollars.

End-of-life spending: Out-of-pocket

Amount spent over the last two years of life at age of death



Source: T. Rowe Price estimates from the Health and Retirement Study (2012–2018). Expenses are measured in 2022 dollars.

The typical retiree

- Annual health care: \$3,500
- Health care “shock”: <\$2,000
- End-of-life spending: \$3,000-\$5,000
- Extreme events/costs: Age 90+

Source: Typical retiree represents 50th percentile across all retirees. Annual health care cost is the T. Rowe Price estimate based on 2024 Medicare premiums and data from the Health and Retirement Study (2020). Other costs are T. Rowe Price estimates from the Health and Retirement Study (2012–2018) and measured in 2022 dollars.





Taking action

1. Preretirement
2. At retirement
3. In retirement





Taking action

1. Preretirement
2. At retirement
3. In retirement



Choose what account to use

Tax benefits	Tax Advantage		
	Pretax account	Roth account	Health Savings Account
Contributions ¹	Excluded from taxable income	Not excluded from taxable income	Excluded from taxable income
Earnings growth	Tax-deferred	Tax-deferred	Tax-deferred
Taxes on distributions	Ordinary rate	Tax-free if qualified ²	Tax-free if qualified ³

The chart reflects Roth and pretax employer-sponsored plans (as opposed to IRAs) unless noted. Advantages of account type (relative to the others) shown in blue. These are not the only options when it comes to saving for health care and/or medical-related expenses in retirement. Note that while Health Savings Accounts (HSAs) are structured for the individual to save or invest for health costs, this is not the intended primary purpose of a defined contribution plan or an IRA. Individuals should evaluate their health coverage needs and other factors before seeking tax benefits of an HSA. HSAs are only available if you are covered by a high-deductible health care plan. Source: IRS documents.

¹ Federal income taxes. State laws vary. HSA contributions through an employer may be excluded from FICA taxes. ² Once you reach age 59½ with an account that has been opened for at least 5 years, you may qualify for tax-free withdrawals of both Roth contributions and any accumulated earnings. ³ HSA distributions are considered qualified if they are used to pay for Qualified Medical Expenses. Chart is for illustrative purposes only.

Health Savings Account (HSA)

- Must be paired with a High-Deductible Health Plan
 - Make a good health insurance coverage decision
- Contribute the maximum amount and invest for the long-term
- Construct portfolio with an appropriate time horizon
 - Use in retirement
 - Before owner (and spouse) pass away



Preretirement actions

- Health care fits within overall retirement spending
- Use tax-advantaged accounts
 - If an HSA, invest with appropriate time horizon
- Consider insurance for extreme expenses
 - Long-term care





Taking action

1. Preretirement
2. At retirement
3. In retirement



Medicare selection and enrollment

ALERT

**Know the Medicare
deadlines.**

EDUCATE

**Understand the
different Medicare
coverage options.**

PLAN

**Incorporate
Medicare choices
into your planning.**

At retirement actions

- Budget for ongoing expenses
 - Medicare premium
 - Out-of-pocket expenses
- Manage extreme expenses
 - Emergency fund
 - Construct portfolio to invest with appropriate time horizon
 - larger expenses happen later in life
 - Insurance
 - Medigap
 - Long-term care





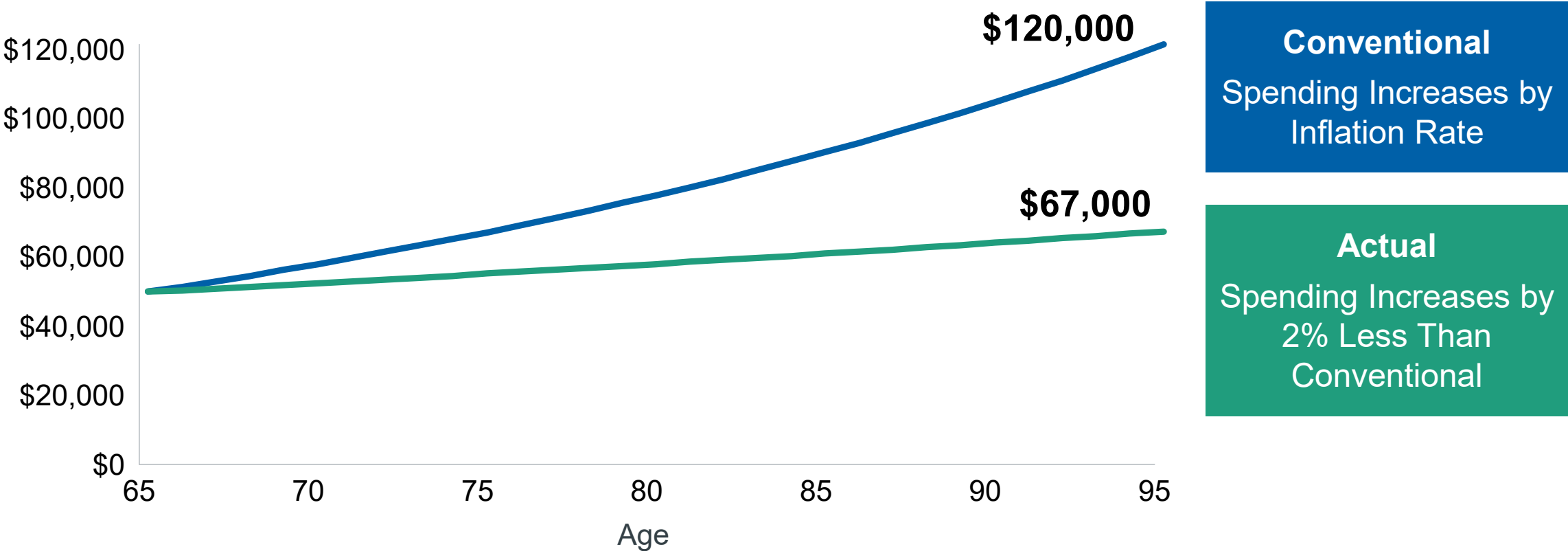
Taking action

1. Preretirement
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Retiree spending in retirement

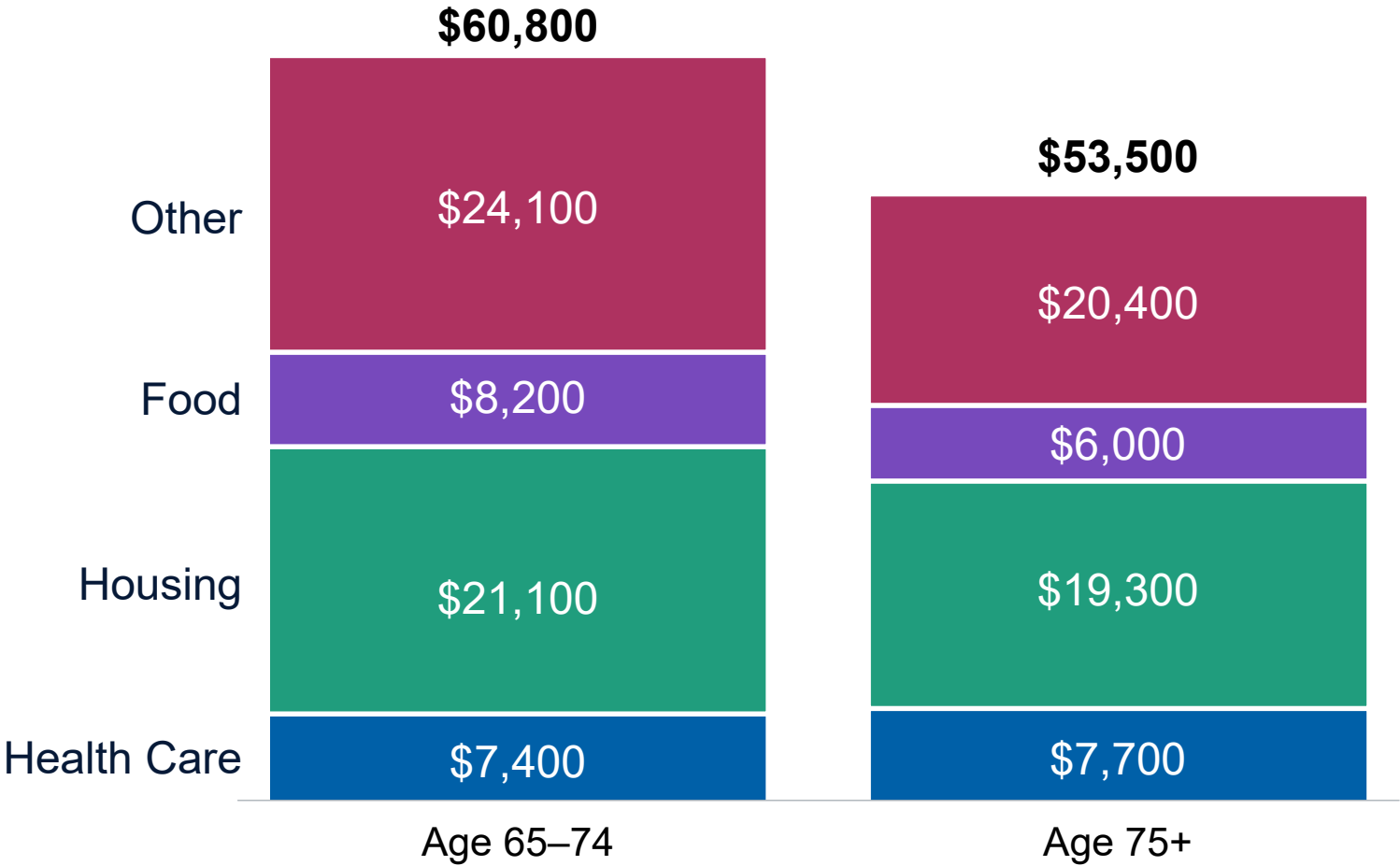
Retirees increase their spending by 2% less than “conventional wisdom” each year



Source: Banerjee, Sudipto, *Decoding Retiree Spending*, T. Rowe Price Insights on Retirement, T. Rowe Price Group, Inc., March 2021 analysis of the Health and Retirement Study, public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI.

Overall spending decreases as people age

Average annual expenditure



Source: U.S. Bureau of Labor Statistics, Table 1300, Consumer Expenditures Surveys, 2022.

In retirement actions

Financial


- Update budget as needed
 - Revisit Medicare choice each year
 - Extremes get larger as people age
- Withdraw from appropriate account
 - Deplete HSA by account owner's (spouse's) death
- Adjust investments appropriately

Nonfinancial

- Who will be on the caregiving support team?
- What activities help promote a healthy and vibrant retirement?

More resources

Handouts





The Real Costs of Retiree Health Care

Key Takeaways

Historically, retiree health care costs have been a scary subject and challenging financial puzzle. Our research and analysis helps take the guesswork out of planning. The following three-step approach provides a structure for taking action.

1. Understand and plan for the costs

Lost in the retiree health care discussion are key facts that bring the challenge down to size.

Costs are predictable: Projections for retiree health care expenses are often presented as lump sum, lifetime figures. But actual costs are typically more modest and predictable, and best viewed as annual expenses. Half of retirees will pay less than \$3,500 and only 10% will pay more than \$8,300 annually.

2. Focus on the typical; be aware of the extreme

In addition to total annual health care spending, retirees may experience health care "shocks", an increase in out-of-pocket health care expenses over a two-year period. Understanding what these look like, as well as end-of-life expenses—the amount spent over the last two years of life (at the age of death)—can help with planning.

Total annual health care spending



Source: T. Rowe Price estimates based on 2024 Medicare premiums (for Medicare Parts A, B, and D) and data from the Health and Retirement Study (2020). All costs are rounded to the nearest hundred.

	50 th percentile	90 th percentile
Health care "shocks"	\$2,000	>\$5,000
End-of-life spending	\$3,400	\$85,200

Source: T. Rowe Price estimates from Health and Retirement Study (2012–2018). Expenses are measured in 2022 dollars.

White Papers





The Truth About Health Care Expenses Late in Life

Many retirees fear outliving their savings, but those fears are likely overstated.

July 2023



Sudipto Banerjee, Ph.D.
Vice President
Retirement Thought Leadership

KEY INSIGHTS

- Despite strong concerns, the likelihood that health care costs in the final two years of someone's life will inevitably deplete their finances in retirement is low.
- While nursing home and long-term care costs increase with age, data show that most final stays in these facilities lasted less than three months.
- Planning for late life care should incorporate costs versus preferences when evaluating insurance coverage, care providers, and asset preservation needs.

There is a perception among many retirees that health care expenses mostly associated with long-term care will spike near the end of life, leaving them penniless. This becomes even more concerning if there is a surviving spouse. New research from T. Rowe Price finds that 67% of retirees are concerned about the cost of long-term care and services (e.g., nursing home care, assisted care, and home health care), and 63% are concerned about out-of-pocket health care expenses.¹

With that in mind, fear of these unknown costs could be having an effect on retiree spending patterns. Other research around retiree spending shows that many retirees cautiously spend their money.² In particular, those with higher assets tend to spend down at a slower rate.

This behavior is likely driven by uncertainty on many fronts, such as market risk, longevity risk, and the future cost of medical care and long-term care. It's more about fearing the storm of the century than a rainy day. That's not surprising given the median annual cost of a semiprivate room in a nursing home tops \$100,000, and the median assisted living charges now exceed \$57,000 a year.³

But could the fear be overblown? Not every retiree spends a year or more in a nursing home or assisted living facility. While some short-term stays in nursing homes and assisted living facilities are covered under Medicare, custodial care is not covered by Medicare and is generally responsible for high out-of-pocket costs.

¹ T. Rowe Price Retirement Savings and Spending Study (2022). Respondents answered as a major or minor concern.

² Banerjee, Sudipto, "Asset Decumulation or Asset Preservation? What Guides Retirement Spending?" EBR Issue Brief, no. 447 (Employee Benefit Research Institute, April 3, 2018).

³ Genworth Cost of Care Survey (2023). <https://www.genworth.com/aging-and-you/finances/cost-of-care.html>

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Presentations





The Real Costs of Retiree Health Care



Next steps

1. Start the health care discussion
2. Use our numbers in your planning
3. Personalize to lifestage

About our studies

Health care shocks: We used data from the Health and Retirement Study (HRS), which is a nationally representative survey of Americans ages 50 and older. The HRS has been conducted every year starting in 1992. We looked at people who were between 60 and 99 years old from 2012 to 2018. Although more recent data have now become available, we believe the probabilities of people experiencing health care shocks are stable and the reported data are still relevant. All costs are adjusted for medical inflation and expressed in 2022 dollars. Since the survey is conducted every two years, respondents report their out-of-pocket health care costs for the preceding two years. As a result, the increases reported are for two-year periods.

Health care costs late in life: The HRS is a nationally representative survey of Americans ages 50 and older sponsored by the Social Security Administration. The HRS has been conducted every year starting in 1992 until the participants' death. We used data from the HRS exit files that include exit interviews for the respondents, typically answered by the surviving spouse or children. Our sample includes all HRS participants who died between 2012 to 2018 and were between ages 65 and 99 at the time of their death. All costs are adjusted for medical inflation and expressed in 2022 dollars. Finally, our study excludes those who were already covered by Medicaid when they were last observed before their death. Since we want to estimate the share of retirees who spent all their assets to fund late-in-life health care spending, we eliminated those who had no meaningful assets left before they arrived at the final two years of their lives.

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Thank You

