One-quarter Million Needed to Cover Retiree Health Care Costs

A 65-year-old couple retiring in 2008 will need about $225,000 to cover medical costs in retirement, according to Fidelity Investments' latest health care cost estimate, released this week. That 2008 estimate, which represents the net present value of 20 years of health care spending in retirement, is 4.7% higher than Fidelity's 2007 estimate of $215,000.

The report, to this editor's analysis, suggests that a 65-year-old couple would face annual health care costs of about $11,250 (not adjusted for inflation) over a 20-year life expectancy. Issued annually by Fidelity, the retiree health care cost estimate has risen 41% since it was calculated in 2002, with the average annual increase of 5.8%.

As in past years, Fidelity said in a release that the 2008 estimate (as in past years) assumes individuals do not have employer sponsored retiree health care coverage and includes expenses associated with Medicare Part B and D premiums (30%), Medicare cost sharing provisions — co-payments, co-insurance, deductibles and excluded benefits (39%) — and prescription drug out-of-pocket costs (31%). It does not include other health-related expenses, such as over-the-counter medications, most dental services and long-term care.

Workers working longer because of rising health-care costs

Workers are deciding to delay retirement because of rising health-care costs, according to a new study from the Center for Retirement Research at Boston College. The report, according to NewDASH, notes that workers whose employers offer retiree health benefits are more likely to retire than workers with employer-sponsored health benefits that do not continue into retirement (though the median retirement age is about 62 for workers with retiree health insurance and 63 for workers with no retiree health benefits). Those with no health benefits from their employers are also more likely to remain in the labor force past age 65.

"With health care costs continuing to outpace wage increases and companies trimming retiree health benefits, financing health care has to be central to retirement planning,"
Brad Kimler, executive vice president, Fidelity Investments, said in a statement.

"Given current economic conditions, this is especially true for those planning to retire in the next few years or before they qualify for full Social Security or Medicare benefits."
Higher unit costs (e.g., the price of a doctor's visit) and higher utilization rates for health care services (e.g., more doctor visits per person) are among the main reasons why the retiree health care cost estimate rose from 2007 to 2008. Additional contributing factors include rising costs associated with new technologies, such as better diagnostic testing, prescription drugs and an increase in certain chronic conditions (e.g., diabetes), the company said.

Kimler acknowledged that actual retiree health care costs can vary based on one's financial circumstances, health status and geography. That notwithstanding, Fidelity offered the following five ways consumers can prepare for retiree medical costs:

1. **Create an individual retirement plan.** The first step every working American should take is to create an individual retirement plan. In building a plan, workers can factor in their specific circumstances such as current savings, anticipated income sources, lifestyle, expenses, geographic location and likely health care needs in retirement.

2. **Start early and maximize opportunities to save.** Regardless of age, it makes sense for most individuals to begin saving for retiree health care costs as early as possible. The easiest way to do this is to maximize any opportunities offered by an employer, such as enrolling in a Health Savings Account (HSA) or other qualified account earmarked for health care. HSAs, which are only available to those enrolled in a high-deductible health plan, are tax-advantaged accounts that allow eligible individuals to pay for qualified medical expenses on a federal tax-free basis. The funds can be used to pay for current qualified medical expenses or continue to potentially accumulate and be used in the future to pay for qualified medical expenses in retirement.

3. **Assess health status and become a smarter consumer of health care.** Individuals should assess their own current health situation or status carefully in order to accurately plan for future medical expenses. If available, employees should take advantage of health planning tools and education offered

through the workplace or their health plan provider. Individuals should also look for ways they can become smarter consumers of health care, such as considering generic drugs instead of brand names, becoming better informed about their medical conditions or diagnoses, and decreasing emergency room visits by maximizing preventive services. These small steps can help individuals reduce their health care costs both now and in the future.

4. **Determine details of any employer-sponsored coverage.** Preretirees need to determine what, if any, employer-sponsored health care coverage they can rely on in retirement. Those who will have access to an employer-sponsored plan should fully understand the scope, extent and duration of their coverage. Although employers may communicate their plans to employees, it's incumbent upon the individual to thoroughly understand the details of their plan. It is critical for workers to know whether their coverage may end at a specific point, or cost more after retirement.

5. **Understand the financial impact of health care costs on Social Security income.** Since many retirees rely on Social Security as their primary source of income in retirement, Fidelity calculated the impact that a $225,000 health care liability would have on a retiree's Social Security benefit. It found that a 65-year-old worker today, who is earning $60,000 and decides to retire this year, should expect that 50% of his or her pre-tax Social Security benefit will be used to pay for personal health care expenses in the next 17 to 19 years.

Duly noted…

- Drug prices for brand-name medications most commonly prescribed to the elderly increased by an average of 7.4% in 2007 about two-and-a-half times the rate of inflation, according to an AARP study released this week, reports Kaiser Daily Health Policy Report (KDHPR). For the study, AARP tracked wholesale drug prices of 220 brand-name medications. According to the study, prices increased for all but four drugs in 2007, with most exceeding the rate of general inflation. The drug with the largest price increase — 27.7% — was Sanofi-Aventis' sleep aid Ambien, while the price of Merck's cholesterol drug Zocor did not change.

- Reps. John Dingell (D-Mich.), Henry Waxman (D-Calif.) and Frank Pallone (D-N.J.) have asked the Government Accountability Office to examine state insurance pools' effectiveness in covering high-risk individuals, reports KDHPR. Thirty-four states offer some form of a high-risk pool, according to the National Association of State Comprehensive Health Insurance Plans. Such insurance pools are intended for individuals who are unable to obtain coverage through private insurers and usually offer coverage at a higher cost than private plans.

- America's Health Insurance Plans officials met this week with the Senate Finance Committee to propose rules that would stop aggressive marketing tactics for Medicare Advantage plans, KDHPR reports. Among tactics the insurers say should be banned are cold-calling, door-to-door sales, cross-selling other products and offering inducements to push enrollment. Many of the industry's recommendations are similar to provisions included in legislation (S 2687) introduced this week by Sen. Olympia Snowe (R-Maine). Snowe's bill also would increase the open enrollment period to give beneficiaries more time to decide which plan suits them best, and it would create a complaint reporting system.

- Prescription drug advertisements prompt nearly one-third of U.S. adults to ask their physicians about an advertised medicine, and 82% of those who ask about drugs are given a prescription, according to a survey by USA Today, the Kaiser Family Foundation and the Harvard University School of Public Health.

- President Bush during his weekly radio address last week asked Congress to pass a bill (S 2237) that would restrict online sales of prescription drugs, KDHPR reports. Sen. Dianne Feinstein (D-Calif.) introduced the legislation in response to the death of Ryan Haight, an 18-year-old who overdosed on hydrocodone that he purchased online.

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