Health Care Costs in Retirement May Be Unwelcome Surprise
By Stephen Miller, CEBS, Aug 19, 2016  shrm.org

Health care can be one of the largest expenses for people in retirement, but employees may underestimate how much savings they'll need to set aside to cover those costs. Meanwhile, employers are cutting back or eliminating retiree health care and long-term care benefits due to rising costs on their end.

Employers can help current workers understand what their medical expenses in retirement are likely to be and encourage them to save more — if they can — so they'll have sufficient funds to meet these obligations.

Growing Costs
Employees who base their retirement savings needs on their current spending levels may be blindsided by future health costs, which are likely to be far in excess of what Medicare covers.

A 65-year-old couple retiring in 2016 will need an estimated $260,000 to cover health care costs going forward — a 6 percent increase over last year's estimate of $245,000, according to new research by Fidelity Benefits Consulting, a division of Fidelity Investments that provides services to workplace benefit plans.

The estimate applies to retirees with traditional Medicare insurance coverage and provides a general idea of the monthly expenses associated with Medicare premiums, co-payments and deductibles, as well as prescription drug out-of-pocket expenses.

The increase in this year's estimate is attributed to several factors, including an uptick in the use of medical services and rapidly rising drug costs.

"In recent years, the health care industry has experienced a period of historically low spending levels, due to a range of factors including a period of slow economic growth," said Adam Stavisky, senior vice president at Fidelity Benefits Consulting in Boston. "Looking forward, we expect health care spending to pick up from where it's been in recent years, though less than what we've seen over the last few decades."

While retiree health care costs are growing, fewer employers are offering retiree health care benefits, which can include group health coverage or subsidies to purchase an individual Medicare supplemental health plan, increasingly through a private exchange.

Retiree health care benefits were offered by 20 percent of organizations in 2016, down from 24 percent in 2012, according to the Society for Human Resource Management's (SHRM's) 2016 Employee Benefits research report, based on a survey of SHRM members conducted earlier this year.
Planning Ahead

Fidelity also examined the costs associated with the need for long-term care sometime during retirement, which could impact 7 in 10 Americans who reach age 65 in the next five years.

While Medicare covers many health-related expenses in retirement, long-term care costs are only covered by Medicare in limited circumstances. Fidelity estimates that a 65-year-old couple would need to save an extra $130,000 to ensure against long-term care expenses.

"Long-term care is an increasingly important part of retirement planning, as a significant percentage of retirees will likely need some level of long-term care in retirement," Stavisky said. "Unfortunately, recent Fidelity research on family finances has shown that less than half of parents surveyed have had detailed conversations about long-term care with their kids." In particular, while 72 percent of parents expect one of their children will assume long-term caregiver responsibilities in retirement if need be, 40 percent of the children they identified as filling this role didn't know this.

Setting aside sufficient funds during working years or purchasing long-term care insurance "can help avoid placing the burden of care on family and friends," Stavisky noted.

SHRM's benefits survey found that 27 percent of organizations provide group or subsidized individual long-term care insurance to employees in 2016, down from 32 percent the previous year. But while some organizations continue to pay all or part of the long-term care premiums for retirees, in most cases employees become responsible for this obligation after leaving employment—an added expense that they should keep in mind.

Given all these factors, planning for retiree health care expenses should be part of an employer's financial wellness education efforts and included in communications about the need to set aside sufficient funds in employee retirement savings plans. The average participant salary deferral savings rate held steady at 7 percent, far below the recommended level of 15 percent that includes the employer match, according to findings by financial services firm T. Rowe Price.

Setting Aside HSAs Funds

To help employees manage health care expenses, a growing number of companies are offering high-deductible health plans with a health savings account (HSA). The popularity of HSAs is growing, with the number of HSA accounts in the U.S. rising to 16.7 million in 2015, an increase of 22 percent from the previous year.

"Since many people save more in their HSA than they spend, more are choosing to invest their HSA money to help it grow for use in retirement," Savisky said.

HSAs were offered by one-half of organizations in 2016, up from 43 percent in 2015, according to SHRM's benefits survey. Contributions to HSAs can be made by the employer, the employee or both, and organizations were more likely to make contributions to these accounts in 2016 (32 percent) than they were in 2012 (25 percent).

"People increasingly view HSAs as supplemental retirement plans, thanks to the tax benefits they offer," said M.P. Dunleavy, a personal finance advisor in New York City and co-founder of DailyWorth.com. She remarked, "If you invest your HSA funds wisely, and spend them only on qualified medical expenses,
these accounts are a great way to squirrel away a bit more for retirement"—and the health care costs that await there.

https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/retiree-health-costs.aspx?utm_source=SHRM%20Friday%20PublishThis_HRDaily_7.18.16%20(10)&utm_medium=email&utm_content=August%202019,%202016&MID=00693098&spMailingID=26287168&spUserID=ODM1OTI0NTMxNjcS1&spJobID=863430571&spReportId=ODYzNDMwNTcxS0