A Couple Retiring in 2018 Would Need an Estimated $280,000 to Cover Health Care Costs in Retirement, Fidelity® Analysis Shows

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BOSTON — A 65-year old couple retiring this year will need $280,000 to cover health care and medical expenses throughout retirement, according to Fidelity Investments' 16th annual retiree health care cost estimate. This represents a two percent increase from 2017 and a 75 percent increase from Fidelity's first estimate in 2002 of $160,000.

For individuals retiring this year, using same assumptions and life expectancies used to calculate the estimate for a 65-year-old couple, a male will need $133,000 to cover health care costs in retirement, while females will need $147,000, primarily due to the fact that women are expected to live longer than men.

"Despite this year’s estimate remaining relatively flat, covering health care costs remains one of the most significant, yet unpredictable, aspects of retirement planning," said Shams Talib, executive vice president and head of Fidelity Benefits Consulting. "It's important for individuals to educate themselves and take steps while working to ensure they are prepared to address these costs. Otherwise, people risk having to dip into more of their savings than originally anticipated, potentially impacting their overall retirement lifestyle."

Many of the metrics contributing to Fidelity's annual retiree health care cost estimate are susceptible to shifts in the economic landscape and changes in government regulations. The two percent increase to this year's estimate is the smallest annual increase since 2014, which indicates that many of the factors contributing to the estimate, such as prescription out-of-pocket drug expenses and Medicare premiums, have remained relatively flat over the last year. This moderation of estimated retiree health care costs coincides with increasing savings levels for many Americans—an analysis of 401(k) accounts managed by Fidelity indicates the average savings rate has increased almost 10 percent since 2013.

Additional Costs are Likely if Retirement Starts Prior to Medicare Eligibility
Fidelity’s estimate is designed to calculate health care expenses for a couple that retires at 65 and assumes both partners are eligible for Medicare. However, many individuals decide to retire before they reach 65, either voluntarily, due to health issues or a work-related event.

Fidelity recently polled more than 1,000 individuals between the ages of 50 and 64 who had retired within the last three years about how they planned to cover health care expenses until they are eligible for Medicare, as well as to understand how much they thought they would spend on health care in retirement. According to the survey findings, 56 percent of respondents retired earlier than expected and nearly one-third (30 percent) of those individuals retired early due to a health event affecting them or their spouse. Almost all respondents indicated they had some form of health care coverage to cover expenses until they were eligible for Medicare, but more than one-third (36 percent) of respondents were paying $500 per month or more in health care premiums.

When early retirees were asked how they were paying for out-of-pocket premiums, co-pays and deductibles associated with insurance coverage, 49 percent indicated they were dipping into personal savings to cover these expenses. Nearly one-quarter (24 percent) were relying on Social Security income, or retirement savings (15 percent). Only 14 percent of respondents were using a health savings account (HSA) to cover these costs.

In the face of these additional costs, many early retirees could be underestimating what they may need to cover health care in retirement. Nearly half (46 percent) of respondents estimated they would need less than $100,000 for health care costs in retirement—while another 33 percent admitted to not having any idea of what their expenses could be in retirement.

"Individuals who are faced with the prospect of retiring early, regardless of the reason, will need to educate themselves on the options available to bridge the gap to Medicare eligibility to help pay for the extra health care expenses they’re likely to incur during this period," added Talib.

Fidelity Resources can Help Prepare for Health Care Costs in Retirement
Fidelity offers several educational resources to help individuals understand and prepare for health care costs during their working years and into retirement, including a Fidelity Viewpoints article providing additional details on this year’s retiree health care cost estimate and a video with tips to help save money on health care costs in the years leading up to retirement.

As an increasing number of employers offer HSAs, Fidelity has published a Viewpoints article with tips to make the most of an HSA, as well as a video highlighting tips for new health savings account holders. Fidelity has also published an age-based set of retirement savings guidelines that include health care expenses and are designed to help individuals understand how much they should have save by specific age milestones.
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