Health Care Costs for Couples in Retirement Rise to an Estimated $260,000, Fidelity Analysis Shows

BOSTON — Paying for health care can be one of the largest expenses for people in retirement. A 65-year-old couple retiring in 2016 will need an estimated $260,000[1] to cover health care costs in retirement, according to Fidelity's Retiree Health Care Cost Estimate. This is a six percent increase over last year's estimate of $245,000 and the highest estimate since calculations began in 2002.

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

The six percent increase in this year's estimate is attributed to several factors, including an uptick in the utilization 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, Fidelity Benefits Consulting. "Looking forward, we expect health care spending to pick up[2] from where it's been in recent years, though less than what we've seen over the last few decades."

This year, Fidelity also examined the costs associated with long-term care, which could impact seven in 10 Americans who reach age 65 in the next five years[3].

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 $130,000, in addition to savings for retiree medical expenses, to insure against long-term care expenses. This assumes the couple is in a good health and purchases a policy with $8,000 monthly maximum benefit, with three years of benefits, and an inflation adjuster of 3 percent per year.

Long-term care expenses are based on many factors, and the need for long-term care insurance (and level of coverage) is highly dependent on individual circumstances. To help people better understand long-term care and long-term care coverage options, Fidelity recently published "Long Term Care: Challenges and Changes."

"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. Unfortunately, recent Fidelity research[4] on family finances has shown that less than half of parents surveyed have not had detailed conversations about long-term care with their kids. Planning on how to address these potential costs will help avoid placing the burden of care on family and friends," added Stavisky.

Health Savings Accounts Can Help Address Health Care Costs in Retirement

To help employees manage health care expenses, a growing number of companies are offering high-deductible health plans (HDHP) with a health savings account (HSA). The popularity of HSAs is booming, 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.[5]

One reason for the increase is that HSAs offer a triple-tax advantage to save for qualified medical expenses both in the short and long term. 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.

Fidelity provides HSAs for almost half a million workers and has HSA assets of about $1.5 billion. In the past year, the number of Fidelity HSA account holders increased by 38 percent and HSA assets increased by 40 percent[6]. To understand the role HSAs play in overall financial wellness, Fidelity has published "Three Healthy Habits for Health Savings Accounts," which is available on fidelity.com.