

Retiree health cost estimates

Robert Schmidt, FSA, MAAA, EA



Milliman produces estimates of retiree health costs that are updated each year. These estimates were developed for the purpose of educating employees and retirees about the potential cost of retiree health care.

PROJECTED COSTS FOR A HEALTHY 65-YEAR-OLD COUPLE RETIRING IN 2019

A healthy 65-year-old couple retiring in 2019 is projected to spend \$369,000 in today's dollars (\$551,000 in future dollars) on healthcare over their lifetime, and expenses at age 85 are estimated to be 250% higher than at age 65. This estimate is based on the following assumptions:

- The health statuses of the retiree and spouse are assumed to be average for the entire life span of each person. These averages are based on a typical commercially insured population in the Milliman Health Cost Guidelines™.
- The retiree and spouse are assumed to be male and female with life spans of 87 and 89, respectively.
- Nationwide average premiums and out-of-pocket expenses from age 65 through life span for a Medicare Supplement Plan G and a standard Medicare Part D plan are used, based on the Milliman Health Cost Guidelines and premium information obtained from the Centers for Medicare and Medicaid Services (CMS).
- Future medical trend is assumed to be 4.9% per year. This assumption is based on long-term estimates from a Society of Actuaries model,¹ supplemented with Milliman research and converted to an annual equivalent rate.
- For calculations of present values in today's dollars, an investment return of 3.0% per year is used.

PORTION OF SOCIAL SECURITY BENEFIT SPENT ON HEALTH CARE

A healthy 67-year-old retired couple is projected to spend 39% of their pre-tax Social Security benefit on healthcare in 2019. This estimate is based on the following assumptions:

- The health statuses of the retiree and spouse are assumed to be average. These averages are based on a typical commercially insured population based in the Milliman Health Cost Guidelines.
- The retiree and spouse are assumed to be male and female.
- The 2019 nationwide average premiums and out-of-pocket expenses at age 67 for a Medicare Supplement Plan G and a standard Medicare Part D plan are used, based on the Milliman Health Cost Guidelines and premium information obtained from the CMS.
- The December 2017 average monthly pre-tax Social Security benefit at age 65 to 69 of \$1,388.38 for retirees and \$817.99 for spouses is used, with adjustments to 2019.² Social Security cost-of-living adjustments of 2% in 2018 and 2.8% in 2019 are used.³

¹ See <https://www.soa.org/resources/research-reports/2016/research-hlthcare-trends/>

² See Table 5.A10 from <https://www.ssa.gov/policy/docs/statcomps/supplement/2018/5a.pdf>

³ See <https://www.ssa.gov/OACT/COLA/colaseries.html>

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PROJECTED COSTS FOR A HEALTHY 45-YEAR-OLD COUPLE

A healthy 45-year-old couple who retires at age 65 is projected to pay \$532,000 in 2019 dollars, and \$1.4 million over their retirement years, for retiree healthcare. This estimate is based on the following assumptions:

- The health statuses of the retiree and spouse are assumed to be average for the entire life span of each person. These averages are based on a typical commercially insured population based in the Milliman Health Cost Guidelines.
- The retiree and spouse are assumed to be male and female with life spans of 87 and 89, respectively.
- Nationwide average premiums and out-of-pocket expenses from a retirement age of 65 through life span for a Medicare Supplement Plan G and a standard Medicare Part D plan are used, based on the Milliman Health Cost Guidelines and premium information obtained from the Centers for Medicare & Medicaid Services.
- Future medical trend is assumed to be 4.9% per year. This assumption is based on long-term estimates from a Society of Actuaries model,⁴ supplemented with Milliman research and converted to an annual equivalent rate.
- For calculations of present values in today's dollars, an investment return of 3.0% per year is used.

AVERAGE PREMIUM PLUS OUT-OF-POCKET COST AT AGE 65

The estimated 2019 annual premium plus out-of-pocket cost for a healthy 65-year-old is \$5,000. This is based on the following assumptions:

- The health status of the retiree is assumed to be average. The average is based on a typical commercially insured population based in the Milliman Health Cost Guidelines.
- A male or female age 65 is assumed.
- The 2019 nationwide average premiums and out-of-pocket expenses at age 65 for a Medicare Supplement Plan G and a standard Medicare Part D plan are used, based on the *Milliman Health Cost Guidelines*TM and premium information obtained from CMS.

Limitations and qualification statement

The information contained in this report has been prepared for Milliman to use in a retirement planning tool for retirement savings plan participants. The data and information presented may not be appropriate for any other purpose.

It is our understanding that this report may be released publicly. Any distribution of the information should be in its entirety. Any user of this report must possess a certain level of expertise in actuarial science and health care modeling so as not to misinterpret the information presented.

The projection of retiree health care costs is a complicated exercise, and actual results will vary from projections for a variety of reasons, including but not limited to changes in the following key factors:

1. Laws, regulations, and rules governing health care plans in the U.S., such as changes to the Medicare eligibility age
2. Market forces that impact health care costs and plans that are available to retirees
3. Changes in health status of retirees
4. External shocks, such as epidemics or trends in new diseases

All of these factors may have a material effect on retiree health care costs. Thus, it is important to continually monitor all of the factors influencing health care costs and modify projections as needed.

⁴ See <https://www.soa.org/resources/research-reports/2016/research-hlthcare-trends/>

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In performing this analysis, we relied on data and other information from sources described above. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete. We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. The author of this report, who is a credentialed actuary, is a member of the American Academy of Actuaries and meets the qualification standards for performing the analyses contained herein.



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CONTACT

Robert Schmidt
robert.schmidt@milliman.com

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