

Retiree health cost estimates

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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 2020

A healthy 65-year-old couple retiring in 2020 is projected to spend approximately \$351,000 in today's dollars (\$535,000 in future dollars) on healthcare over their lifetime. Expenses at age 85 are estimated to be 234% higher than that at age 65. Projected costs have been calculated using 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 88 and 90, 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 34% of their Social Security benefit on healthcare in 2020. These calculations are 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.
- 2020 nationwide average premiums and out-of-pocket expenses at age 67 for a Medicare Supplement Plan G, Medicare Part B, 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 2018 average monthly Social Security benefit at age 65-69 of \$1,432.02 for retirees and \$849.81 for spouses is used, with adjustments to 2019.² Social Security cost of living adjustments of 2.8% in 2019 and 1.6% in 2020 are used.³

¹ See <https://www.soa.org/resources/research-reports/2019/getzen-model-update/>

² See Table 5.A10 from <https://www.ssa.gov/policy/docs/statcomps/supplement/2019/5a.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 is projected to spend approximately \$505,000 in today's dollars (\$1.4 million in future dollars) on healthcare over their lifetime. Projected costs have been calculated using the following assumptions:

- The health statuses of the retiree and spouse are assumed to be average for their entire life span.
- The retiree and spouse are assumed to be male and female with life spans of 88 and 90, 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.
- 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, investment return of 3.0% per year is used.

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

The estimated 2020 annual premium plus out-of-pocket cost for a healthy 65-year-old is \$4,700. Milliman has calculated the out-of-pocket cost using 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 on the Milliman Health Cost Guidelines™.
- A male or female age 65 is assumed.
- The 2020 nationwide average premiums and out-of-pocket expenses at age 65 for a Medicare Supplement Plan G, Medicare Part B, 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).

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.

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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

These cost estimates do not include the projected impact of COVID-19 on premiums and out-of-pocket costs. There is a substantial amount of uncertainty regarding the impact of COVID-19 on plan costs, including whether the pandemic will materially increase or decrease costs during the term of these projections.

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/2019/getzen-model-update/>

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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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