

A smarter way to budget for retirement health-care costs

By **Glenn Ruffenach**

The cost of a hospital stay is unpredictable; the cost of your statin prescription, less so.

A new report suggests that people approaching retirement look at health-care expenses in later life in terms of “recurring” and “nonrecurring” services, and it offers some numbers that can be helpful in crafting a retirement budget.

Health care represents the second-largest budget item (after housing costs) for retirees. But planning for those expenses can be challenging, given increasing life expectancy and the possibility that medical bills can increase substantially with age. A good way to think about such bills might be to separate the more predictable expenses from the less predictable ones—which is how the Employee Benefit Research Institute in Washington, D.C., frames the issue in a recently published report.

Based on data from the Health and Retirement Study, a survey of U.S. households age 50-plus, EBRI defines predictable—or recurring—expenses as doctor visits, prescription-drug use and dentist services. All three have “high usage,” and that usage is consistent across different age groups.

By comparison, less predictable—or nonrecurring—events include overnight hospital stays, overnight nursing-home stays, home health care, outpatient surgery and special facilities.

EBRI’s findings: Recurring health-care costs appear to remain stable throughout retirement—and across all age groups. Among the Medicare-eligible population (age 65-plus), the average, annual out-of-pocket expenditure for recurring health-care expenses, according to EBRI, was \$1,885.

If we assume a 2% rate of inflation and 3% rate of return on savings, a person with a life expectancy of 90 would need almost \$41,000 (to be exact: \$40,798) at age 65 to fund his or her recurring health-care expenses through end of life. (Note: That figure doesn’t include other recurring expenses like insurance premiums or over-the-counter medications.)

With nonrecurring expenses, the math is trickier; that’s because, by definition, “both the usage and intensity of usage of these types of services are very uncertain,” the report states. Here, instead of providing a single figure needed at retirement, EBRI looks at specific services.

Case in point: nursing-home stays. For individuals ages 85 and older, the average and the 90th percentile of nursing-home expenses were \$24,185 and \$66,600, respectively, during a two-year period.

Equally important, the report looks at the use of health-care services in, roughly, the 12 to 24 months preceding “to examine the extent of backloading in health-care expenses.” Among the findings: More than 50% of people in every age group above 65 received in-home health care from a medically trained person before death, according to EBRI. For individuals age 85-plus, 62.3% had overnight nursing-home stays before death, and 51.6% were living in a nursing home before death.

“Uncertainty about some of the key components of health-care costs, like diagnosis of a life-threatening condition or needing long-term care, causes many retirees to be apprehensive about their health-care cost needs,” EBRI notes. A “good plan to tackle health-care expenses in retirement may include separate preparations for more predictable and less predictable needs and a contingency plan for backloaded expenses.”

<http://www.marketwatch.com/story/a-smarter-way-to-budget-for-retirement-health-care-costs-2015-03-02?siteid=yhoof2>