

How serious is the need to plan for retiree health care expenses?

From the Watson Wyatt Research Report “Retiree Health Benefits: Time to Resuscitate?”:

“Retirees will bear a much greater portion of their own medical costs in the years to come, and the cost of medical care will very likely continue to grow faster than workers’ incomes. Watson Wyatt modeled a variety of cost scenarios from the retiree perspective, based on plan provisions and contribution levels reported by large employers as well as projection assumptions from Medicare and other governmental sources. These models clearly illustrate that future retirees will shoulder substantially more – if not all – of the costs of their health care in retirement.

Also from the Watson Wyatt Research Report, “Policy Recommendations for Employers and Government”:

“Third, we must provide a tax environment that encourages employers and employees to fund these future medical expenditures from today’s productivity. If employers and retirees do not set aside the resources today, tomorrow’s workers and taxpayers will bear much of the burden.”

From “Financing Health Care for an Aging Population” by John Fl Derr, R.Ph, American Health Care Association (December 2005) :

“By 2015, the Baby Boom population will reach 77 million. As a group, this population will live longer than preceding generations, thanks to medical advances. So its crucial to consider how we will care for these older adults – and how we will pay for that care.” He continues by saying, “For an example of the challenges to be overcome, consider skilled nursing home reimbursement. On average, payments in skilled nursing home facilities are reimbursed 65 percent by Medicaid and 17 percent by Medicare – totaling 82 percent of the costs of case. Since the implementation of the prospective payment system in 1999, there has been a continuous stream of cuts both to reimbursement and treatments covered. Add to these cuts the high cost of liability insurance and increasing costs of qualify staff and you have a broken system.”

From CBS News, “Boomer Health Care Dilemma” (September 2004):

“Researchers say that major changes in the way people make decisions about their personal health and financial future as well as public policy will make a critical difference in their health and well being later in life.”

Neither Niche nor its agents or employees provide tax or legal advice. Any comments included in this written communication are not intended or written to be used, and cannot be used by the taxpayer, for the purpose of avoiding any penalties that may be imposed on the taxpayer by any governmental taxing authority or agency.

From health economist David Cutler, PhD, Harvard University (September 2004):

“In 1950, the cost of treating a heart attack was virtually nothing because the only available treatment was bed rest for six months, and as a result the outlook for heart attack survivors was bleak. Today, the cost of treating a heart attack with drugs to restore blood flow and surgery to repair clogged arteries is nearly \$30,000...”

From LifestylebyChoice:

“People have a different vision of retirement today, and that vision does not include the end of having fun while living a productive life. Retirees want to live a lifestyle of their dreams, do exciting things including travel, and be able to handle the high costs of housing, health care and long-term care as it becomes more necessary.

The evidence is clearly showing that Baby boomers will not be able to count on what was previously considered retirement security. Private-sector pensions and personal savings are no longer adequate to ensure that most Americans will have enough to live on when they retire.”

From The Commonwealth Fund: Health Coverage for Aging Baby Boomers: Finds from the Commonwealth Fund Survey of Older Adults (January 2006):

“The combination of rising out-of-pocket health care costs and sluggish wage growth threatens workers’ ability to save for retirement. This is particularly true for older adults ages 50 to 64, or “baby boomers”, whose per capita health care expenditures are more than twice those of younger adults.”

From Baby Boomer Retirement Tips:

“Governments and companies around the world are shifting retirement risk to individuals. The troubling news is that neither workers, retirees, nor the final world are adequately prepared. Few Americans realize how long they can expect to live, or how much retirement will cost. Don’t expect the government or your former employer as you plan for your retirement years. There will still be a safety net but proceed as if you are on your own.”

Neither Niche nor its agents or employees provide tax or legal advice. Any comments included in this written communication are not intended or written to be used, and cannot be used by the taxpayer, for the purpose of avoiding any penalties that may be imposed on the taxpayer by any governmental taxing authority or agency.

Following are key quotes from the studies:

From Employee Benefit Research Institute: “The combination of the erosion of retiree health benefits and limited benefits from Medicare and Medigap means that retirees should expect to pay a significant amount of money for health insurance and health care services during retirement. An individual without access to employment-based health benefits who instead purchased Medigap coverage will have needed to save between \$74,000 - \$1,458,000, to retire at age 65 in 2003.”

From the Watson-Wyatt Research Report: “Retirees will have no choice but to assume greater responsibility in planning for medical costs in retirement, including consideration of increased personal savings and delayed retirement. Congress should allow employers to fund retiree health benefit plans under tax incentives similar to those governing pensions today. Without such funding, the future of employer-sponsored retiree medical benefits is not secure.”

From Hewitt Associates Study: “Given their current savings and investment patterns, workers who must rely entirely on their 401(k) plans and Social Security to pay all their retirement expenses must plan for retirement much more carefully. If these employees have to pay the full cost of retiree medical benefits, they are projected to be left with only about 57 percent of their pre-retirement income – much less than those employees offered programs incorporating other retirement benefits like pension plans or retiree medical subsidies.”

From the Bureau of Labor Statistics: “The aging workforce and improvements in health care services have led to increased interest in the availability of health care benefits to retirees; gathering and tabulating data on this topic can be a challenge.”

From Fidelity Workplace Services: “Raising awareness of the issues surrounding retiree health care costs is essential in helping individuals clear this significant financial hurdle. There is still sufficient time for the “retirement bubble” baby boomers, who are currently age 38 to 55, to plan for and fund retirement medical expenses.”

From the Kaiser/Hewitt 2003 Survey on Retiree Health Benefits: “Retiree health benefits are highly valued by employees, retirees, and their families but are also a substantial cost for the large private-sector firms surveyed in this study. Despite ongoing efforts to manage the cost of retiree health programs, the total cost of providing retiree health benefits has been rising rapidly in recent years...”

From Alain Enthove, PhD., Stanford University: "America's healthcare system exhibits serious quality deficiencies and unsustainable expenditure growth."

From Centers for Disease Control and Merck's "The State of Aging and Health in America in 2004": "The US population is aging. The United States is in the midst of a longevity revolution. Life expectancy increased dramatically during the past century, from 47 years for Americans born in 1900 to 77 years for those born in 2001. Not only are more Americans living longer, but the proportion that is age 65 years and older is also growing. That growth will increase rapidly as baby boomers, those born between 1946 and 1964, begin to reach age 65 in 2011....By 2030, when all of the baby boomers have reached age 65, the number of older Americans is expected to reach 71 million, or roughly 20% of the US population."