Medical Xpress

Retired couples may need $240,000 for health care

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(AP) -- Couples retiring this year can expect their medical bills throughout retirement to cost 4 percent more than those who retired a year ago, according to an annual projection released Wednesday by Fidelity Investments.

The estimated $240,000 that a newly retired couple will need to cover health care expenses reflects the typical pattern of projected annual increases. The Boston-based company cut the estimate for the first time last year, citing President Barack Obama's health care overhaul. Medicare changes resulting from that plan are expected to gradually reduce many seniors' out-of-pocket expenses for prescription drugs.

But Fidelity says overall health care cost trends are on the rise again, so it's raising its cost estimate from last year's $230,000 figure.

"As long as health care cost trends exceed personal income growth and economic growth, health care will still be a growing burden for the country as a whole and for individuals," says Sunit Patel, a senior vice president for benefits consulting at Fidelity, and an actuary who helped calculate the estimate.

However, this year's 4 percent rise is relatively modest. Annual increases have averaged 6 percent since Fidelity made its initial $160,000 calculation in 2002.

The projections are part of Fidelity's benefits consulting business. The study is based on projections for a 65-year-old couple retiring this year with Medicare coverage. The estimate factors in the federal program's premiums, co-payments and deductibles, as well as out-of-pocket prescription costs. The study assumes the couple does not have insurance from their former employers, and a life expectancy of 85 for women and 82 for men. The estimate doesn't factor in most dental services, or long-term care, such as the cost of living in a nursing home.

This year's estimate could change significantly. Next month, the U.S. Supreme Court will decide whether to strike down part or all of the 2010 health care law, including its centerpiece requirement that nearly all Americans carry insurance or pay a penalty.

If the ruling requires significant changes, Fidelity may update its estimate, Patel said.

Although its focus is expanding health care access to people under age 65, the law also is intended to benefit many retirees by gradually closing what's known as the `doughnut hole' coverage gap in the Medicare drug benefit.

But longer-term, retirees' cost savings aren't expected to offset other factors driving expenses up, such as new medical technologies, greater use of health care services, and more diagnostic tests.

Fidelity's findings illustrate the importance of factoring in health care alongside housing, food and other expenses in retirement planning. If medical costs continue to rise faster than personal incomes, many retirees will have to adjust their household budgets so they can cover medical costs, Patel says.

"It's a fixed liability for the majority of folks, and it doesn't vary up or down like food or clothing costs can," he says.