

Health costs squeeze retirees

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BOSTON - Rising health care costs are eating up more of retirees' savings, with a 65-year-old couple retiring this year needing about \$215,000 to cover medical costs after they stop working, Fidelity Investments said yesterday.

The \$215,000 represents a 7.5 percent increase from Fidelity's annual estimate last year of the amount a typical U.S. couple would need during retirement to pay for health care, including medical and surgical expenses as well as prescription drugs.

That increase is higher than the average annual increase of 6.1 percent since Fidelity began calculating retiree health care expenses five years ago. Since then, the highest increase came in 2005, when the estimate rose 8.6 percent.

The cost estimates generally track inflation in health care expenses. Fidelity, the nation's largest mutual fund manager and a provider of retiree financial services, projects health care will rise about 7 percent per year.

Those costs are rising faster than overall inflation because of increasingly expensive medical technologies, costlier prescription drugs and longer life expectancy, said Brad Kimler, senior vice president for Fidelity Employer Services Co., a division of Boston-based Fidelity.

"We don't expect to see this number going down," Kimler said.

Fidelity estimated that 32 percent of the \$215,000 estimate - up from \$200,000 a year ago - would be for Medicare coverage premiums for expenses from doctors' visits, outpatient hospital care and prescription drugs.

Another 35 percent of the expenses would come from other cost-sharing provisions of Medicare, including co-payments and deductibles. Out-of-pocket costs for prescriptions would account for another 33 percent.

Fidelity's estimate doesn't include over-the-counter medications, most dental services and long-term care.

The estimate assumes retirees have no employer-provided health care coverage, and projects life expectancies of 82 for men and 85 for women.

Kimler said the growth in health care expenses poses a special challenge for people who expect to rely on Social Security as a primary income source in retirement.

Fidelity projects that a 65-year-old worker who now earns \$60,000 a year and expects to retire at the end of this year should expect that 50 percent of his or her pretax Social Security benefit will be eaten up by health expenses in the next 16 to 18 years.

"That's a pretty large chunk of your post-retirement income," Kimler said.

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