

New index gauges retiree health costs as percent of SS benefits

By Editorial Staff Thu, Apr 17, 2014

"Many Americans believe that Medicare will cover most or all of their health care costs in retirement. This is simply untrue," said Ron Mastrogiovanni, founder and CEO of HealthView Services, which has created a benchmark for tracking the rise in health care costs for retirees.

Middle-class Americans' total health care premiums and out-of-pocket medical expenses in retirement may eventually equal or exceed the value of their Social Security benefits, according to the Retirement Health Care Cost Index, a benchmark created by [HealthView Services](#), a Danvers, Mass., consulting firm.

HealthViewServices markets HealthWealthLink application, a tool that shows advisors and their clients how to adjust their retirement income strategies to health care costs. Its new Retirement Health Care Cost Index expresses future retiree health cost exposure as a percentage of middle-income Social Security benefits, although the two figures are not directly related.

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[Every year, the government re-sets the Medicare Part B premium, which covers physicians, outpatient visits and medical equipment. For 2014, the base premium is \$104.90. Single beneficiaries earning over \$85,000 a year, or couples earning over \$170,000, pay \$146.90, \$209.80, \$272.70, or \$335.70 per month, depending on income level, according to a March 14 [report](#) from the Congressional Research Service.

"If projected Part B costs increase or decrease, the premium rises or falls proportionately. However, the Social Security Act includes a provision that holds most Social Security beneficiaries harmless for increases in the Medicare Part B premium; affected beneficiaries' Part B premiums are reduced to ensure that their Social Security benefits do not decline from one year to the next," the report said.]

The Index, described in a HealthView Services release, measures the percentage of Social Security benefits required to pay for health care-related costs in retirement for a healthy couple receiving the average expected Social Security benefit at full retirement age. It includes Medicare Part B and Part D premiums, Medigap premiums, and out-of-pocket costs.

According to the Index, future health care costs will average 69% of Social Security benefits for middle-class couples retiring in one year and receiving about \$2,100 a month in benefits. But, if health care inflation (estimated at 5% to 7%) continues to outstrip Social Security adjustments (estimated at 2% a year) retirement health care costs will outstrip Social Security benefits—rising to 98% of Social Security in 10 years, 127% in 20 years and 190% in 32 years.

The Index assumes that primary income earners will generate the Social Security average of \$1,294 per month in today's dollars and their spouses \$817 per month. For a healthy couple retiring in one year with

one spouse earning maximum Social Security benefits, but earning less than \$170,000 in total income, 39% of Social Security benefits will be required to cover healthcare costs. This will rise to 52% of Social Security benefits if they retire in 10 years.

If the same couple earns more than \$170,000 in retirement, they will be subject to the Medicare surcharge, which raises Medicare Parts B and D premiums by 35% to 200%, depending on their Modified Adjusted Gross Income (MAGI). A couple in Medicare's top income bracket who retire in one year will incur \$255,267 in lifetime Medicare surcharges.

The Index uses HealthView Services' cost data from more than 50 million annual health care cases. It is calculated using an actuary- and physician-reviewed methodology that determines individual longevity and retirement health care costs based on age, gender, health, and time to retirement. The methodology is updated regularly to reflect health care cost inflation, Social Security cost-of-living increases, and regulatory changes.

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