OOPs! Medical expenses can eat up retirement income

By Editorial Staff *Thu, Oct 12, 2017*

Nearly one-fifth of retirees had less than half of their 2014 Social Security income remaining after out-of-pocket (OOP) spending, with 6% of retirees having less than half of their total income after OOPs, according to the Center for Retirement Research at Boston College.

Medicare's high out-of-pocket (OOP) costs will substantially reduce retiree's income from Social Security benefits and other sources, according to a new working paper from the Center for Retirement Research at Boston College.

Average OOP spending (excluding long-term care) was $4,274 per year in 2014, with approximately two-thirds ($2,965) spent on premiums. In 2014, the average retiree had only 65.7% of his Social Security benefits remaining after OOP spending and only 82.2% of total income.

Nearly one-fifth (18%) of retirees had less than half of their 2014 Social Security income remaining after OOP spending, with 6% of retirees falling below 50% of total income.

Post-OOP benefit ratios increased concurrently with the introduction of Medicare Part D for retirees who lacked prescription drug coverage prior to 2006. This group also saw a small increase after the donut hole began closing in 2010.

With less than two-thirds of their Social Security benefits available for non-medical consumption, and limited income outside of Social Security for much of the elderly population, many retirees likely feel that making ends meet is difficult.

Medicare spending per beneficiary is expected to resume its decades-long rise by the end of the decade, putting more pressure on retirees' budgets. The CRR researchers used the 2002-2014 Health and Retirement Study to calculate post-OOP benefit ratios, defined as the share of either Social Security benefits or total income available for non-medical spending.

The project decomposes the share of income that is going toward premium payments and services delivered. It examines how these post-OOP benefit ratios differ by age, gender, income, supplemental insurance coverage, and health status.

The project also updates the changes in OOP spending and the post-OOP income ratios that followed the introduction of Medicare Part D prescription drug coverage in 2006 and the closing of the "donut hole" coverage gap in 2010, which decreased OOP costs under Part D for those spending moderate amounts on prescriptions.