

2021 retiree health cost estimates

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Milliman produces estimates of retiree health costs that are updated each year. These estimates were developed for the purpose of educating employees and retirees about the potential cost of retiree healthcare.

PROJECTED COSTS FOR A HEALTHY 65-YEAR-OLD COUPLE RETIRING IN 2021

A healthy 65-year-old couple retiring in 2021 is projected to spend approximately \$352,000 in today's dollars (\$537,000 in future dollars) on healthcare over their lifetime. Expenses at age 85 are estimated to be 232% higher than that at age 65. Projected costs have been calculated using the following assumptions:

- The health statuses of the retiree and spouse are assumed to be average for the entire lifespan of each person. These averages are based on a typical commercially insured population in the Milliman Health Cost Guidelines™.
- The retiree and spouse are assumed to be male and female with life spans of 88 and 90, respectively.
- Nationwide average premiums and out-of-pocket expenses from age 65 through lifespan for a Medicare Supplement Plan G, Medicare Part B, and standard Medicare Part D plan are used, based on the Milliman Health Cost Guidelines and premium information obtained from the Centers for Medicare and Medicaid Services (CMS).
- Future medical trend is assumed to be 4.9% per year. This assumption is based on long-term estimates from a Society of Actuaries model,¹ supplemented with Milliman research and converted to an annual equivalent rate.
- For calculations of present values in today's dollars, an investment return of 3.0% per year is used.

PORTION OF SOCIAL SECURITY BENEFIT SPENT ON HEALTHCARE

A healthy 67-year-old retired couple is projected to spend 33% of their Social Security benefit on healthcare in 2021. These calculations are based on the following assumptions:

- The health statuses of the retiree and spouse are assumed to be average. These averages are based on a typical commercially insured population based in the Milliman Health Cost Guidelines.
- The retiree and spouse are assumed to be male and female.
- The 2021 nationwide average premiums and out-of-pocket expenses at age 67 for a Medicare Supplement Plan G, Medicare Part B, and standard Medicare Part D plan are used, based on the Milliman Health Cost Guidelines and premium information obtained from CMS.
- The December 2019 average monthly Social Security benefit at age 65 to 69 of \$1,468.73 for retirees and \$871.86 for spouses is used, with adjustments to 2021.² Social Security cost-of-living adjustments of 1.6% in 2020 and 1.3% in 2021 are used.³

1 See <https://www.soa.org/resources/research-reports/2020/getzen-model-update-2021-2030/>.

2 See Table 5.A10 from <https://www.ssa.gov/policy/docs/statcomps/supplement/2020/5a.pdf>.

3 See <https://www.ssa.gov/OACT/COLA/colaseries.html>.

PROJECTED COSTS FOR A HEALTHY 45-YEAR-OLD COUPLE RETIRING AT AGE 65

A healthy 45-year-old couple is projected to spend approximately \$507,000 in today's dollars (\$1.4 million in future dollars) on healthcare over their lifetime. Projected costs have been calculated using the following assumptions:

- The health statuses of the retiree and spouse are assumed to be average for their entire lifespan.
- The retiree and spouse are assumed to be male and female with lifespans of 88 and 90, respectively.
- Nationwide average premiums and out-of-pocket expenses from a retirement age of 65 through lifespan for a Medicare Supplement Plan G, Medicare Part B, and standard Medicare Part D plan are used.
- Future medical trend is assumed to be 4.9% per year. This assumption is based on long-term estimates from a Society of Actuaries model,⁴ supplemented with Milliman research and converted to an annual equivalent rate.
- For calculations of present values in today's dollars, investment return of 3.0% per year is used.

AVERAGE PREMIUM PLUS OUT-OF-POCKET COST AT AGE 65

The estimated 2021 annual premium plus out-of-pocket cost for a healthy 65-year-old is \$4,745. Milliman has calculated the out-of-pocket cost using the following assumptions:

- The health status of the retiree is assumed to be average. The average is based on a typical commercially insured population based on the Milliman Health Cost Guidelines.
- A male or female age 65 is assumed.
- The 2021 nationwide average premiums and out-of-pocket expenses at age 65 for a Medicare Supplement Plan G, Medicare Part B, and standard Medicare Part D plan are used, based on the Milliman Health Cost Guidelines and premium information obtained from CMS.

Limitations and qualification statement

The information contained in this report has been prepared for Milliman to use in a retirement planning tool for retirement savings plan participants. The data and information presented may not be appropriate for any other purpose.

It is our understanding that this report may be released publicly. Any distribution of the information should be in its entirety. Any user of this report must possess a certain level of expertise in actuarial science and healthcare modeling so as not to misinterpret the information presented.

The projection of retiree healthcare costs is a complicated exercise, and actual results will vary from projections for a variety of reasons, including but not limited to changes in the following key factors:

1. Laws, regulations, and rules governing healthcare plans in the United States, such as changes to the Medicare eligibility age
2. Market forces that impact healthcare costs and plans that are available to retirees
3. Changes in health status of retirees
4. External shocks, such as epidemics or trends in new diseases

All of these factors may have a material effect on retiree healthcare costs. Thus, it is important to continually monitor all of the factors influencing healthcare costs and modify projections as needed.

The COVID-19 pandemic has had a dramatic effect on healthcare costs over the course of the past year, and substantial uncertainty remains regarding the future impact of COVID-19. The effect on 2021 premiums may vary significantly by carrier, and it is unclear what portion of the premium changes from 2020 to 2021 are due to COVID-19. While some premiums may have explicit COVID-19 adjustments, we have chosen not to make any other explicit adjustments to the projected premium or out-of-pocket costs in this analysis due to COVID-19. It is possible that the COVID-19 pandemic could have a material impact on the projected costs.

⁴ See <https://www.soa.org/resources/research-reports/2020/getzen-model-update-2021-2030/>.

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Milliman has developed certain models to estimate the values included in this report. The intent of the models was to estimate future expected premiums and out-pocket claims costs. We have reviewed the models, including their inputs, calculations, and outputs, for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice (ASOP).

The models rely on data and information as input to the models. We have relied upon certain data and information (sources as noted above) for this purpose and accepted it without audit. To the extent that the data and information provided is not accurate, or is not complete, the values provided in this report may likewise be inaccurate or incomplete.

The models, including all input, calculations, and output, may not be appropriate for any other purpose.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. The authors of this report, who are credentialed actuaries, are members of the American Academy of Actuaries and meet the qualification standards for performing the analyses contained herein.



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