



What - Me Worry?

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The way many, if not most Americans are preparing for the amount of medical expenses they almost surely will face during retirement calls to mind the unshakable insouciance of *Mad Magazine's* Alfred E. Neuman and his famous phrase. Alfred turns 53 in March, 2008, an age by which many people have begun to take a serious look at how their retirement preparations stack up. We can only wonder if Alfred could maintain his sanguine smile if confronted by the realities faced by many Americans.

As it has done every year since 2002, Fidelity Investments recently released its annual estimate of out-of-pocket retiree medical costs. The expected tab is now up to \$225,000 for a 65-year old couple retiring in 2008. Remember, these are out-of-pocket dollars, above and beyond expenses reimbursed by Medicare. Fidelity projects that a new retiree whose final salary was \$60,000 will spend half of their pre-tax Social Security benefits on healthcare.

Fidelity's estimate has risen by 41% since 2002. The estimated expenses include:

- Medicare Parts B and D premiums (30%)
- Medicare cost sharing and excluded coverages (39%)
- Prescription drug out-of-pocket payments (31%)

Last month, the (Cleveland) Plain Dealer published an article on how much people need to save for retirement. One example showed that a person needs to have a nest egg of \$550,000 by age 60 in order to have a retirement income of \$80,000 annually. The Plain Dealer's calculation assumed an aggressive 10% annual rate of return on pre-retirement investments and retirement *not* commencing until age 67.

The Plain Dealer article did not mention the Fidelity projection. What it did say (almost as an aside) was: "Make sure you've accounted for how you'll pay for adequate healthcare coverage in retirement. Medical expenses can derail the best retirement plan". This appears to be a mild caution when juxtaposed with the facts concerning the financial state of many Americans. Consider:

- In Ohio, the average household outstanding credit card debt is \$9,101 (carrying an average annual interest rate of 13.78%). Only 6 states have higher average credit card debt.
- The average 401(k) account balance is \$58,328.
- The average 401(k) account balance *for those age 60 or older* is \$140,957.

With fewer and fewer people being covered by defined benefit pension plans (not to mention the financial fragility of many of those plans), reliance on 401(k) balances will only increase. The foregoing data shows such reliance to be based on shaky ground. Moreover, even those fortunate enough to work for an employer that still provides some form of retiree medical coverage can't breathe easy. Those employers have long since reserved the right to amend or terminate that coverage, and it is no longer news when that is just what an employer does. So, the pressure on personal savings is likely to be immense as the Baby Boomers attain customary retirement ages in droves.

There may be many reasons that explain the disturbingly poor prospects for retirees being able to pay for their healthcare. Some (many?) employees live from paycheck to paycheck and don't believe that there is any money left over for savings. Others are simply spending it all, perhaps thinking that greater government generosity will somehow, someday be extended to them like manna from heaven. Well, it is entirely likely that Medicare will be amended someday, but not as likely that those amendments will make Medicare coverage richer.

There may be another reason why so many people do not appear to be targeting pre-funding their personal retiree medical liability. It is a reason that that can be addressed by benefits managers. That reason is the lack of explicit messaging to people about the expense of Medicare itself and the expenses Medicare won't cover; the \$225,000 in expenses that Fidelity projects is out there for each newly minted retiree. That scary number is probably receiving far less attention than its consequences deserve.

The Plain Dealer article pointed its readers to 7 different online retirement income "calculators". Did those calculators explicitly address Fidelity's \$225,000 projection? Did they focus at all on the money needed for out-of-pocket retiree medical expenses? *In Focus* tested each one of those online calculators and can report that not one of them explicitly had a line item anywhere that showed projected retiree medical expenses. Maybe accounting for medical expenses was buried deep inside the calculators' methodologies. Let's hope so. If not, popular online calculators may be radically understating their users' true financial prospects.

While Alfred E. Neuman isn't worried, there is reason for the rest of us to worry that what employees don't know might crush their future financial well being, not merely dent it. Most benefit managers make plenty of investment education available to their employees through their 401(k) providers. Do those educational resources highlight employees' burgeoning (and most likely unfunded) retiree medical liability?

The antidote to worry is a plan that tackles the source of impending pain. Benefit managers should provide targeted information about the personal cost of retiree healthcare and how much more their employees need to save to meet those costs. That information should be coupled with an admonition, "Medicare won't cover everything. So save 'till it hurts, then save some more".

Did You Know?

In her recent column on medical plan claims audits: "While I don't mean to demonize employers, I wonder if it makes moral sense to join health insurers in removing children and other dependants from insurance rolls. I know it makes perfect financial sense." Kelly Butler, Editor-in-Chief, Source Media (Employee Benefit News).

