According to the Employee Benefit Research Institute, a couple retiring today will need $261,000 if they want a 90% probability of meeting health care costs during their retirement. The significance health care has for financial security in retirement redefines how employers can best help employees achieve their retirement dreams.

THE NEW RETIREMENT MATH

Health care costs are forcing a new calculus on traditional retirement planning. Not only are health care costs rising faster than the general inflation rate, but health care expenses will comprise a growing percentage of our spending as we grow older. Consequently, the simple benchmarks used in the past by retirement planners may hold less relevance today for current and future retirees.

Americans are not entirely unaware of what this health care juggernaut may mean to them. Indeed, when they were asked about their level of confidence in meeting these expenses in retirement, 63% of Baby Boomers said that they lacked the confidence that they’ll have enough money to fund their medical expenses in retirement.

Possibly more problematic than this shaky confidence is that individuals appear to be significantly underestimating what health care in retirement will cost them. According to a report issued by the Stanford Center on Longevity, “43% of middle-income Americans are paying more for healthcare with Medicare than they expected they would.” One reason for this may be that many are overlooking the prospect of long-term care because of the mistaken assumption that Medicare will cover those expenses.

With the potential for needing long-term care so high—the Department of Health and Human Services estimates that about 70% of people over age 65 will need long-term care—it means that many Americans may likely discover big holes in their retirement finances.

A REDEFINED ROLE FOR EMPLOYERS

The news headlines will tell us that health insurance is undergoing revolutionary changes brought about, in part, by increasing prices, a large uninsured population, and public policy. It is unlikely that any expert can envision, with any degree of confidence, what the landscape might look like in the next 5 or 10 years, but it might be safe to predict (or at least for individuals to plan for) greater personal responsibility in funding their own future health care expenditures.
Since the rise of defined contribution plans and a social contract that shifted retirement responsibility to the individual, employers have increasingly become more involved and more effective at helping employees meet this new responsibility.

Through diverse approaches that include education, matching contributions, and even some behavioral economic theory (automatic enrollment and automatic deferral percentages), employers have worked hard to support their employees’ contribution efforts.

In view of this emerging health care trend, employers may have to broaden the definition of what it means to be a full partner with its employees as they undertake efforts to meet the challenges of this new retirement reality.

Increasingly, employers may need to begin re-evaluating the nature and content of their employee support offerings to include:

- educational materials and seminars that reflect the reality of health care costs in retirement;
- planning tools that incorporate estimated health care cost inputs and guidance to include them in any planning calculations;
- access to optional long-term care insurance; and
- more robust retiring employee transition services, especially in regard to navigating the Medicare and Medigap insurance maze.