Home in the Range: Health Care Retirement Costs as Much as a House

A recent study indicated that 48 percent of respondents believe they will need $50,000 to pay for individual health care costs in retirement, but the true cost is estimated at four times that amount.

Many older Americans, stung by a recession that shattered investments and home values, have accepted the reality of a less financially secure retirement that comes later in life. As the golden years approach, they also are discovering that they are unprepared and increasingly concerned about health care costs after leaving the workplace.

Research from Fidelity Investments' "2013 Retirement Savings Assessment" study released in March suggests that while 84 percent of pre-retirees (ages 55 to 64) wonder whether they'll be able to cover health expenses during retirement, many greatly underestimate the amount of savings they will need. The study indicated that 48 percent of respondents believe they will need about $50,000 to pay for their individual health care costs in retirement. In contrast, Fidelity's annual retiree health care cost estimate found that the average couple should expect to spend more than $220,000 in health care expenses over the course of their retirement, the same figure Fidelity reported last year.

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According to Fidelity, retirees now spend more on health care than they do on food. If that trend continues, health care will be retirees' second-largest expense in just a few years, with housing holding the top spot. Still, employees aren't thinking that far ahead when saving money or managing their health.

“People aren’t making the connection between health today and health during retirement,” said Jeff Munn, vice president of benefits policy development for Fidelity Investments. “They’re thinking, ‘Am I going for an annual checkup? Am I taking my medication? Will I have Medicare?’ ”

Arthur Noonan, senior partner in the retirement business at Mercer, said less than 20 percent of companies provide retirement health care, and while baby boomers see how big of an issue this was for their parents, they’re not thinking about it themselves.

“Employees in that age bracket have a direct line of sight with the aging parent issue,” he said. “They see how unprepared their parents were, but they’re not thinking, ‘This is going to be me in 20 years.’ They need to take action, but they’re not, and companies aren’t always helping them take the next steps.”

At The Schwan Food Co., a Marshall, Minnesota-based frozen-food company, Chief Human Resources Officer Scott Peterson said it has implemented two programs designed to help employees meet health and financial retirement goals. Schwan recently announced an employee profit-sharing retirement plan that provides additional savings for employees and serves as a sign-up incentive for those not using the 401(k).

Schwan also moved to a consumer-driven health plan in 2013. Peterson saw that 60 percent of the company’s employees over the age of 40 contribute to their health savings account. Under Schwan’s new plan, employees can earn extra money for their HSAs by participating in wellness programs and achieving positive outcomes, such as healthy blood-pressure measurement and tracking physical activity. They also earn dollars by learning more about Schwan’s retirement savings plan.