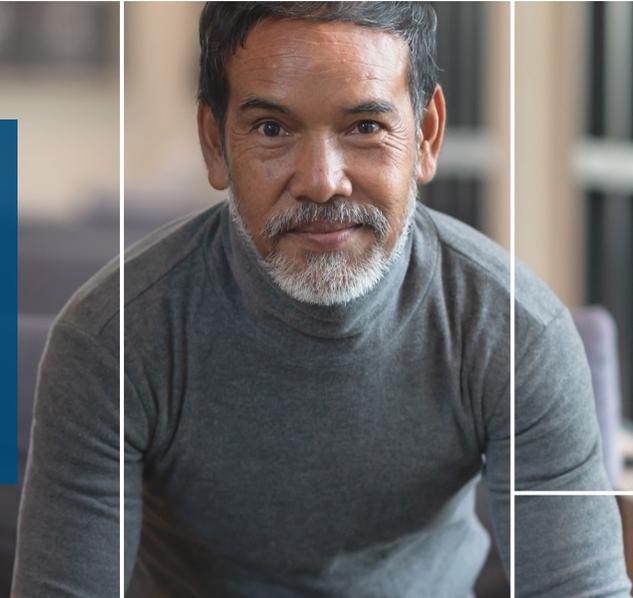




# Health Care is Not a Six-Figure Word

Key Takeaways

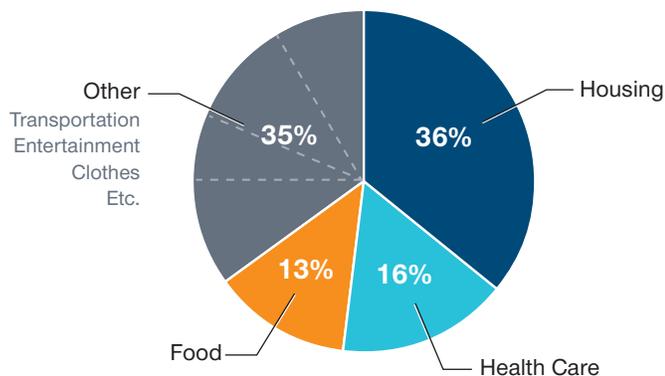


The predominant narrative around health care costs in retirement is that they are overwhelmingly large. However, our research has shown that, in reality, these costs can be effectively planned for and the conversation about health care costs need not be as scary as previously thought.

## Health care isn't the largest retirement expense

- When retirement costs are broken down, health care costs aren't the largest expense by far. At 16%, they are less than half of housing costs (36%).<sup>1</sup>

### EXPENSES FOR AMERICANS AGE 75+



## Fixed costs: Primarily Medicare premiums

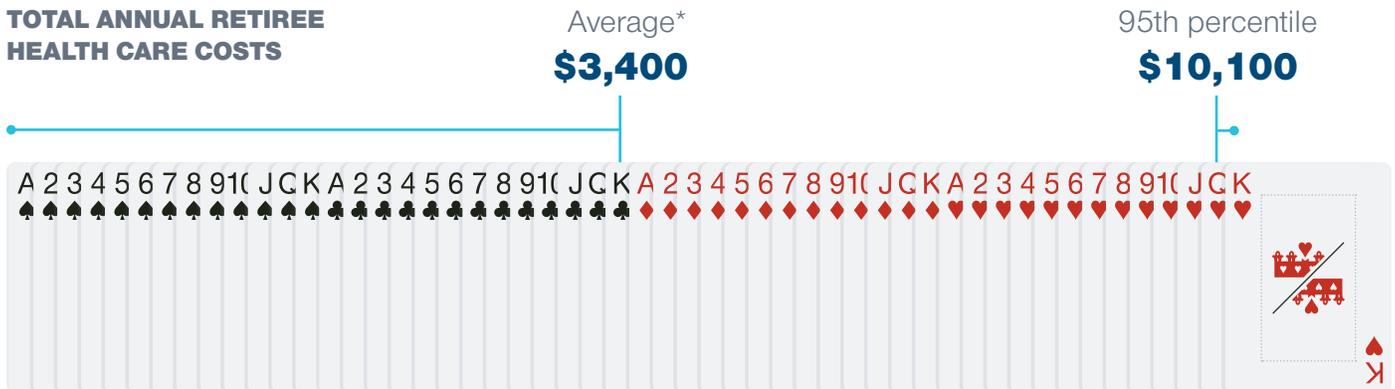
- Constitute the bulk (about three-fourths) of health care expenses for the average retiree
- Are relatively stable, predictable, and less risky
- Are incurred monthly and can be budgeted for, similar in nature to a cable or utility bill

## Variable costs: Modest out-of-pocket costs and unexpected one-off shocks

- Typically a much smaller share of overall health care expenses for most retirees
- Frequency and size of shocks can vary widely. Only a small number of people will have a very high health care expense shock in any given year.

## Total annual health care costs are lower than you think

To illustrate the health care expenses you could potentially pay each year, imagine a deck of playing cards. You could fall anywhere on this cost spectrum in any given year.



### As health care spending rises, other expenses drop

- On average, 65 to 74-year-olds spend about \$6,700 annually for health care. For those age 75+, it goes up to \$6,900.
- Meanwhile, all other expenses drop, with total average annual spending going from \$56,200 to \$42,700.

### Annual variable health care costs at different ages

	Average*	95th percentile
60s and 70s	\$1,000	\$7,000
80s	\$1,000	\$13,000
Early 90s	\$1,000	\$33,000
Late 90s	\$1,000	\$42,000

## What you can do about it:

**1** Assess where the funding for health care expenses could come from, how you will invest your money, and what insurance solutions you might be interested in.

**2** Consider the role your employer's retirement plan might play—including its withdrawal options, the accounts available to you, and investment choices.

**3** Contact your financial professional to learn more about planning for health care costs in retirement.

\* Median

<sup>1</sup> U.S. Bureau of Labor Statistics, Consumer Expenditure Survey, 2018, Table 1300. Age of reference person: Average annual expenditures and characteristics. T. Rowe Price estimates based on projected 2020 Medicare premiums and data from the Health and Retirement Study (HRS). All costs are rounded to the nearest hundred.

This material is provided for general and educational purposes only, and not intended to provide legal, tax or investment advice. This material does not provide recommendations concerning investments, investment strategies or account types, advice of any kind; and not intended to suggest any particular investment action is appropriate for you. Please consider your own circumstances before making an investment decision.

© 2020 T. Rowe Price. All rights reserved. T. Rowe Price, INVEST WITH CONFIDENCE, and the bighorn sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.

T. Rowe Price Investment Services, Inc.