Center for Retirement Research at Boston College
"What is the Distribution of Lifetime Health Care Costs from Age 65?"
Video Transcript

Alicia H. Munnell: "Hello, I'm Alicia Munnell. I'm the director of the Center for Retirement Research at Boston College. We're here today to discuss a recent Center study that was funded by Prudential Financial. And I want to get the name of this study correct, "What is the Distribution of Lifetime Health Care Costs from Age 65?" Joining me today is Tony Webb. Tony took the lead on this study. Thank you so much for being here today."

Anthony Webb: "Yes, thank you, it's my pleasure to be here."

Munnell: "Before Tony describes the results, let me just give you a little background of why we were interested in this study. Basically we all know that there are large health care costs looming out there. But there's also, for some people, the risk of extraordinary large health care costs. And the fact that there are these risks makes it very difficult for people to plan how much to save and how much to put aside for retirement. So, the only numbers available today have been numbers about the cost for the average couple. And we wanted to find out what the distribution of those health care costs could be, so that people would understand the nature of the risks they face. So that our study looked at not only the level, but the distribution of health care costs, and how health care costs evolve over people's retirement. So, Tony, could you give us some of the highlights of the results?"

Webb: "Yes, of course. For our research which included thousands of simulations, we were able to estimate that the average remaining uninsured lifetime healthcare expenditure for a typical married couple aged age 65 is around about $200,000. And this includes insurance premiums, out-of-pocket costs, home health costs, but excludes nursing home care. And that's only the average. In fact, a typical household has a 5 percent risk that the present value of its lifetime uninsured health care costs would exceed $310,000. And when nursing homes are included, the amount for a typical couple increases to $260,000 and the couple has a 5 percent chance of its costs exceeding $570,000."

Munnell: "Wow, $570,000. Let me put that number in perspective. Even at the peak of the boom, the percent of households that had accumulated that much in financial assets was only 15 percent. So, it means that a lot of people have the potential of having their resources drained by health care costs. And especially nursing home costs is the wild card here. So the question is, what is the likelihood of actually having to use a nursing home?"

Webb: "Yes, about one-third of individuals who are turning 65 this year will need at least three months nursing home care over their lifetime, and 24 percent will need more than one year of care, and 9 percent will need more than five years of care."

Munnell: "Now we know that these nursing homes are very expensive. Do you have the numbers on that?"

Webb: Yes, the annual cost of nursing home care in 2008 nationwide was about $79,000 for a private room and $71,000 for a semi-private room. Medicare only pays for a maximum of 100 days nursing home care and Medicaid support for long-term care is subject to very strict income and asset tests that vary from state-to-state."

Munnell: "So the costs of nursing home care percents are really enormous risks for everybody but the very poor. Yet despite the widespread nature of that risk, only 15 percent of households have any form of long-term care insurance. So, can you give us any other highlights of your study?"

Webb: "Yes, one other finding was that we found that at age 85 couples face an average of remaining lifetime cost of $140,000 excluding nursing home care and a 5 percent risk of exceeding $270,000. If we include nursing home care the average cost at age 85 is $200,000 and there is a 5% chance of exceeding $480,000."

Munnell: "Now those are very large numbers and what it means is that although health care costs decline with age they're still very substantial at older ages. Can you give us some intuition of why that's true?"

Webb: Yes, it's a bit surprising. Intuitively, as a household ages, it has fewer years of healthcare costs remaining. But there's an increase in the probability of surviving to very advanced ages and the costs of those ages are not reduced as much by time discounting."

Munnell: "So, if I've heard you right, let me summarize, that basically you found two things: that the health care costs are very large and for the average couple at age 65 they're likely to amount to $200,000 over their retirement period. And you add in long-term care and that number becomes $300,000 and there's a 5 percent chance that it could be $570,000. So what it means is that people are at enormous risk of just high expenditures and at some risk of extraordinary expenditures and yet people have not protected themselves. And so that means that they're at risk of having their resources depleted. So my sense is, that for the individual, this means that the individual should take stock and decide whether he or she or the couple are in the middle of the pack or they're likely to have low health care costs or they're likely to be highly at risk. The second thing they should do is to figure out how they're going to deal with that risk and if they can accept it and work around it somehow or whether they want to buy insurance to protect themselves against extraordinary large expenditures. So I think we've learned a lot."

"For those of you out there who would like to learn more about this subject, our study is available both at the Prudential website, prudential.com and at the Center's website. And we thank you all for joining us here today. Thank you, Tony."

Webb: "Yes, thank you."