HealthView SERVICES

2022

Retirement Healthcare Costs Data Report Brief:

The Long-Term Impact of Short-Term Inflation

Executive Summary

HealthView Services' annual Retirement Healthcare Costs Data Reports have provided advisors and clients benchmark data to plan for one of the most significant expenses in retirement – healthcare. The firm has consistently adopted a conservative, ground-up approach to calculating and projecting future costs, utilizing data from 530 million healthcare cases, inflation rates of individual healthcare-cost variables, government data, and Medicare projections. The principal driver of escalating medical expenses is healthcare inflation, which is widely anticipated to increase over the next several years driven by the pandemic and historically high inflation rates.

Current data reveals that even if consumer prices were rising at historical average inflation (of around 3%), a significant portion of retirees' Social Security benefits would be needed to cover healthcare costs. With inflation rising to a 40-year high of 7.9% in 2022, the impact on future expenses will be significant. The 2022 Medicare Part B premium increase of nearly 15% (a record-high $518 annually for a married couple) may be a harbinger for future healthcare cost increases.

Assumptions in this report are based on the expectation that the current period of high inflation is temporary and will revert to projections more consistent with historical averages. Research in this document primarily focuses on the long-term impact of high healthcare inflation for a one-to-two-year period, and highlights the link between rising consumer prices and higher healthcare costs. The paper also reviews how increased utilization of medical services and other critical factors will drive healthcare inflation.

Assuming healthcare costs grow at 1.5 to 2 times CPI for the next two years, a healthy 55-year-old couple may be subject to anywhere from $160,000 to $267,000 in additional retirement healthcare costs. This short-term normal will pose challenges for current and pre-retirees, and investment strategies and savings targets may need to be adjusted to reflect this new normal. Ultimately, a long-term strategic approach that focuses on in-retirement distributions to cover healthcare costs offers a path to ensure these expenses can be addressed.

Key Highlights

01

A short period of high inflation will significantly increase retirement healthcare expenses, even if price increases return closer to historical averages in a relatively short period of time. Healthcare cost inflation historically – and continues to – rise at **1½ - 2** times CPI, impacting not just current retirees, but future retirees as well.

02

Pandemic-related labor shortages, rising wages, the resuming of postponed procedures, and soon-to-be expiring contracts between insurance companies and providers, will also increase the cost of healthcare

03

Assuming just two years of health cost inflation at 1.5 times CPI of 7.9%, the lifetime impact on retirement healthcare costs will be significant:

For a 65-year-old couple, lifetime retirement healthcare costs costs will grow by

$85,917

(for a total of $673,587)

For a 55-year-old couple, lifetime retirement healthcare costs costs will grow by

$160,712

(for a total of $1,073,717)

For a 45-year-old couple, lifetime retirement healthcare costs costs will grow by

$259,808

(for a total of $1,770,276)

04

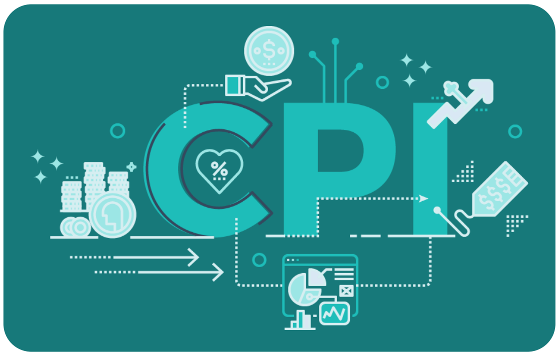
That same 45-year-old couple will have to spend more on their projected retirement healthcare expenses than the total Social Security benefits they are projected to receive, even when accounting for COLAs. Our "Retirement Healthcare Cost Index" shows that they will need 156% of their Social Security benefits (assuming national average benefit amount), to cover total projected healthcare costs in retirement.

05

Personalized, decumulation-focused retirement planning can help individuals and couples address higher future retirement healthcare costs. Advisors should take this opportunity to review and update financial plans to address the impact of inflation on future expenses at least annually.

Healthcare Cost Inflation Drivers

Several key issues drive retirement healthcare costs, which will affect nearly all Americans. To illustrate the full impact of health cost inflation, all totals are shown in future value, which reflects the impact of inflation on the actual dollar amount retirees can be expected to pay out of pocket. While this paper highlights the impact of only one or two years of increased healthcare inflation on retirement medical expenses, the potential remains that this trend could continue for a longer period, and have a great impact on retirees' budgets.



Consumer Price Index

That healthcare costs rise between 1½ -2 times CPI is reflected in the Peterson-KFF Health System Tracker, which shows a correlation through all economic trends from 1980 through 2019, including high inflation in the 1980's and near-zero inflation during the Great Recession[i].

Michael Greiner, Assistant Professor of Management at Oakland University, reflecting on the current state of inflation, notes that **healthcare is a "lagging indicator" and it may take "a year or two" before health costs rise, when contracts between healthcare providers and the federal government and insurance companies come up for renewal**[ii].

Many economists continue to believe that current inflation rates are temporary. However, as the data indicates, even a short-term spike can have long-lasting repercussions on retirement healthcare. With compounding inflation, each price jump impacts all future costs: the bigger the increase, the higher the cost basis for the following year.

COVID-19 Pandemic

It cannot be overstated how much the COVID-19 pandemic has affected the country's healthcare system.

Labor shortages (both current and expected[iii]) have led to higher wages and dramatic increases in the use of traveling nurses. These and other variables have elevated healthcare providers' expenses while revenues have declined, largely due to the postponement of 30% of healthcare visits from older Americans in 2021[iv].

As we emerge from COVID-19, hospitals across the country are experiencing a dramatic increase in the utilization of healthcare-related goods and services as Americans return to their doctors for both essential and non-essential procedures. This extra demand for services, combined with a higher expense base and razor-thin hospital margins[v], will maintain an upward price trajectory for medical services[vi].

Healthcare Industry Trends

Several other variables within the U.S. healthcare system will continue to impact cost growth for retirees. A consolidated list of these include:

- Pending contracts between healthcare providers and the government which, when renewed, are anticipated to dramatically increase costs for consumers [vii]
- Contracts between states and the Medigap and prescription drug insurers [viii]
- Rising costs of nurses and other medical professionals[ix]
- General lack of transparency in health-service pricing
- Lack of choice within, and the fragmented nature of, the U.S. healthcare system [x]
- The declining number of hospitals, which historically leads to price increases [xi]

Data Projections: The Long-Term Impact of Short-Term Inflation

Medicare's nearly 15% increase in Part B premiums from 2021 to 2022 is the first (and currently most notable) example of the impact of healthcare cost inflation. This amount is almost exactly double the latest U.S. Inflation numbers. Historically, healthcare costs have risen by around 6.5% annually, but we are now seeing higher prices reflected in rising Medicare premiums. **The jump in Part B premiums is a benchmark for current healthcare inflation - we should expect other retirement healthcare costs to increase as well at similar rates.** Even if this trend continues for a short period, inflation compounded over time will drive retiree costs significantly higher.

It is important to note the components of retirement healthcare that are incorporated into estimates for lifetime healthcare expense projections (in addition to the Medicare Part B premium), including Medicare Part D and Medigap Plan G premiums, as well as out-of-pocket spending on hospitalization, doctor visits, tests, and prescription drugs.

The following tables show the impact of temporary increases in healthcare costs on expenses over time as a factor of inflation on all goods and services. By adjusting annual inflation by 1.5 and 2 times the latest CPI metrics of 7.9%, the increased cost projections are significant. Readers may also illustrate their own hypothetical cases with this free calculator, available on our website.

Healthcare Cost Inflation Drivers

Healthy, Married Couple Age	Years of 11.85% Health Cost Inflation	Increase in Retirement Health Costs	
65	1	$46,397	7.24%
65	2	$85,917	12.76%
55	1	$72,198	7.21%
55	2	$160,712	14.97%
45	1	$116,869	7.07%
45	2	$259,808	14.68%

Healthy, Married Couple Age	Years of 15.8% Health Cost Inflation	Increase in Retirement Health Costs	
65	1	$72,644	10.96%
65	2	$148,712	20.64%
55	1	$113,996	11.00%
55	2	$267,369	23.23%
45	1	$185,701	10.85%
45	2	$434,888	22.92%

The above data illustrates the lifetime impact of on retirement health spending from higher short-term healthcare inflation rates. After the one- or two-year period, expected healthcare inflation rates of around 5.9% are used.

For a healthy 65-year-old couple, if healthcare inflation were to remain at 1.5x CPI for the next two years, a healthy 65-year-old couple would face an additional $85,917 in retirement healthcare expenses over the next 20+ years. That cost nearly doubles – to almost $160,712 – for a couple aged 55. Lastly, a 45-year-old couple in this same situation will need to pay $259,808 more as a direct result of high health-cost inflation for only two years.

Despite the relatively short period of high healthcare inflation (the table shows one- and two-year examples), the long-term impact is significant.

In the coming months, additional actuarial data on average industry-wide cost increases across specific categories will be available. This information will be the basis for calculating both projected healthcare costs - and the savings retirees will need to address them - which will be presented in HealthView's full 2022 Data Report (to be released mid-to-late 2022).

Financial Planning Strategies

Keeping Social Security in Context

Many Americans are approaching retirement under the impression that annual Social Security Cost-of-Living Adjustments (COLAs) will protect their benefits and shield at least part of their income from inflation.

In this context, the 2022 the Social Security Administration's 5.9% COLA for 2022 - the highest since 1982 - was welcome news. As retirees know from experience, COLAs only tell part of the story.

Case in point, the Centers for Medicare and Medicaid Services (CMS) announced an increase in Medicare Part B monthly premiums for 2022 from $148.50 to $170.10. CMS cited two key causes – cost inflation and projected healthcare utilization - for the historically high Medicare Part B premiums[xii].

This nearly 15% jump was among the largest in Medicare’s history, a single change that will increase a current retirees' premiums by over $250 during the next year (more than $500 for a couple). This may or may not seems like a lot of money, but as detailed earlier in this paper, it is only one component of retirees’ healthcare-related expenses. Add in prescription drug coverage, supplemental insurance, co-pays, and other miscellaneous expenses, and retirees on fixed incomes will feel the pressure on their budgets (It is important to remember that increasing age-rated premiums and utilization of services will also impact costs).

To provide some context for rising medical expenses on retirees budgets, HealthView’s proprietary “Retirement Healthcare Cost Index” expresses total lifetime healthcare costs as a percentage of COLA-adjusted Social Security benefits.

With higher inflation (even over a relatively short period of time) the portion of Social Security income that will be required to cover these costs will be greater. These totals do not include long-term care expenses or Medicare surcharges.

Table B assumes that healthcare cost inflation will increase by 11.85% (1.5-times CPI) for the next two years before reverting to projections that more accurately reflect historical averages.

Table B: Healthcare Cost/ Social Security Index Projections

Healthy, Married Couple Age	Social Security Benefits	Baseline Health Cost Projections		Two-Year Inflation Increase	
		Lifetime Retirement Health Costs	Index	Lifetime Retirement Health Costs	Index
65	$968,054	$597,389	62%	$683,306	71%
55	$1,173,340	$933,928	80%	$1,094,640	93%
45	$1,153,489	$1,543,718	134%	$1,803,526	156%

*In each scenario, a healthy couple retires at age 65; health costs and Social Security benefits are shown as national averages.

A healthy 65-year-old couple retiring today entering Medicare will need 71% of their lifetime Social Security benefits to cover their medical expenses - 9% more than if inflation had remained at historic levels. For those retiring in 20 years, health expenditures will exceed projected Social Security income by 56%. **Retirees counting on Social Security to cover their expenses - or even be used as a supplemental source of retirement income - are often surprised to learn that all of the benefits will be used (even before taxes) just to cover their healthcare needs.**

Focus On Decumulation

To ensure clients have the funds to cover household budgets in general (and healthcare expenses specifically), financial planners and advisors can play a key role by helping each client determine the savings and income they will require throughout retirement.

Personalized actuary-backed planning tools are a starting point. HealthView Services' data considers a variety of factors that can significantly impact future expenses. These include time to retirement, gender, location, and the impact of health conditions on longevity and expected costs.

As detailed in past white papers, although lifetime expenses will be significant, the pre-retirement investments required to fund these costs are within reach. As with all aspects of retirement planning, the earlier clients start saving, the better.

Assuming healthcare inflation remains at 1.5 times the current CPI of 7.9% for the next two years and then return to historical averages, the lifetime savings needed for an average couple to cover healthcare will be higher, but are manageable with the right investment plan. A healthy 45-year-old couple earning a 6% annual rate of return will need to invest an additional $27,000 today to make up the $215,000 in added health expenses resulting from these inflation changes.

In retirement, it is critical to address clients' decumulation needs. Offering approaches today to generate income through retirement to cover health insurance premiums and out-of-pocket expenses, which will increase over time, is a powerful way to provide peace of mind to concerned clients.

Conclusion

For close to two decades, HealthView Services has been at the forefront of providing retirement healthcare-cost data for advisors and clients. During this period, the firm has detailed long-term healthcare trends and issues facing retirees and highlighted the need to incorporate this expense into retirement planning. This call for action has been heard, as many of the largest firms in the industry currently utilize HealthView's data and tools to help clients plan for future healthcare expenses.

The country has undergone several economic cycles and government initiatives designed to lower healthcare costs; however, they have risen consistently in comparison to CPI and will continue to be one of the highest expenses in retirement.

A healthy 45-year-old couple will experience over $250,000 in increased health expenses resulting from this health cost inflation jump for two years, but can address this planning challenge with a lump-sum investment of around $27,000 today.

The pandemic and 40-year-high inflation are extraordinary, interrelated events that will have financial implications on retired and pre-retired Americans for years to come. Lifetime retirement healthcare costs will be higher even if healthcare inflation rates remain at this level for just a year or two, and retirement budgets need to be buttressed to address this issue. While the cost curve may temporarily bend upward, inflation is expected to return to historical averages in the relatively near future. Regardless, even a couple retiring today at age 65 can expect anywhere from $85,000 to $160,000 in added health expenses.

The bottom line is retirement healthcare expenses will be much higher than most expect, and the need to plan for them is critical.

Appendix: Data & Assumptions

HealthView Services draws upon healthcare claims from 530 million individual cases, as well as actuarial and government data, to forecast retirement healthcare costs. Projections may include the cost of Medicare Parts B and D, Medigap (supplemental insurance) and Plan G premiums. Total lifetime projections may comprise out-of-pocket expenses related to hospitalization, doctors and tests, and prescription drugs. Investment solutions cover all of these costs, less Medicare Part B premiums, which are typically deducted directly from Social Security benefits. Calculations assume actuarial longevity for different health conditions, genders and ages, and are shown as national averages, unless otherwise stated. The report uses future-value dollar estimates and does not include Medicare Part A premiums (no cost in retirement for about 99% of Americans).

Short-term healthcare-cost inflation overrides the weighted average inflation rate for the number of years indicated:

- For years in which the person is 65 or older, the escalated inflation rate replaces the actual projected rate.
- For years in which the person is 64 or younger, the escalated inflation rate replaces the mean annual inflation rate between the current year and the year in which they turn 65.

As with any aspect of retirement planning, actual costs for individuals may vary from these averages

About HealthView Services

Founded in 2008 by a team of financial professionals, healthcare industry executives, and physicians, HealthView Services is the nation's leading provider of healthcare cost-projection software. Its portfolio of retirement healthcare-planning applications – which create comprehensive and reliable cost projections for 33 million users annually – is utilized by advisors, financial institutions, employees, and consumers across the country.

Drawing on actuarial and government data, as well as 530 million medical claims, these applications rely on a patented data process that utilizes simple user inputs (age, gender, health conditions, income, and state) to create personalized estimates of retirement healthcare costs. The data also incorporates inflation projections for each component of retirement healthcare: Medicare premiums, supplemental insurance, and out-of-pocket spending.

With more than a decade of use across the financial services industry, these solutions have proven to be a powerful driver of savings and retirement planning. The firm has developed several software applications that address healthcare cost projections, long-term care costs, Medicare premiums and surcharges, Social Security optimization, and other retirement-planning factors. These tools give financial services' clients and plan participants individualized and actionable savings solutions aimed at funding customized healthcare-cost projections.

HealthView Services regularly publishes white papers on various industry topics, including long-term care and health savings accounts.

[i] https://www.healthsystemtracker.org/chart-collection/u-s-spending-healthcare-changed-time/#item-nhe-trends_percent-change-in-total-health-expenditures-per-capita-1980-2018-consumer-price-index-1980-2018

[ii] https://www.wxyz.com/news/inflation/experts-predict-healthcare-prices-will-rise-by-next-year-amid-increasing-inflation

[iii] https://www.beckershospitalreview.com/workforce/23-of-healthcare-workers-likely-to-leave-healthcare-soon-poll-finds.html

[iv] https://www.washingtonpost.com/health/2022/03/06/pandemic-health-canceled-visits/

[v] https://www.beckershospitalreview.com/finance/omicron-rising-expenses-bring-hospitals-another-challenging-year-kaufman-hall-report-finds.html

[vi] https://www.beckershospitalreview.com/finance/expenses-push-major-health-systems-to-operating-margins-under-1.html

[vii] https://www.wxyz.com/news/inflation/experts-predict-healthcare-prices-will-rise-by-next-year-amid-increasing-inflation

[viii] https://www.beckershospitalreview.com/compensation-issues/rn-average-hourly-wage-salary-for-all-50-states-calif-tops-list-at-120k.html

[ix] https://www.forbes.com/sites/debgordon/2021/08/29/biden-administration-delays-new-health-insurance-price-transparency-rules-at-least-6-months/

[x] https://www.cnbc.com/2022/02/28/why-health-care-costs-are-rising-in-the-us-more-than-anywhere-else-.html

[xi] https://www.beckershospitalreview.com/finance/892-hospitals-at-risk-of-closure-state-by-state.html

[xii] https://www.cms.gov/newsroom/fact-sheets/2022-medicare-parts-b-premiums-and-deductibles2022-medicare-part-d-income-related-monthly-adjustment