

## HealthView Services Insights

### Medicare & Demographics: Flat average government spending per beneficiary does not mean healthcare costs aren't rising

A recent [The New York Times article](#) shows the average annual cost to the government per Medicare beneficiary has not significantly increased since 2010. While this is a notable trend, advisors and clients should not assume this means that healthcare costs incurred by individual retirees have not been rising.

A deeper look at key data points we share in this *Insights Brief* reveals demographic changes are at the heart of this seeming contradiction. The first Baby Boomers started to retire in the late 2000s, and have been entering retirement at a rate of around 10,000 a day since. Driven by this demographic wave, the number of Medicare recipients has increased by 39.8% since 2010 (from 47.2 million to 65.8 million) and the proportion of the 65-and-over population has skewed younger and healthier, compared to more than a decade ago.

#### Key Medicare Data Points, 2010 vs. Today

- Medicare enrollment (2010 to 2023)
  - +39.4% (47.2 million to 65.8 million)
- Total Medicare spend (2010 to 2022)
  - +73% (\$522.9 billion in 2010, \$905.1 billion in 2023)
- Average per beneficiary spending by the government stayed about the same at roughly \$12,500 (per New York Times)
- Medicare fund solvency projected through 2031
- Medicare Part A Hospital Insurance Trust Fund (2010 to 2022)
  - +38.2% (\$247.9 billion in 2010, \$342.7 billion in 2022)
- Average life expectancy of retirees (2010 to 2023)
  - +0.5 years (85 in 2010, 85.5 in 2023)
- Medicare Part B premium increase (2010 to 2023)
  - +49% (\$110.50 to \$164.90)
- Medicare Advantage enrollment (2010 to 2023)
  - +175% (11.1 million to 30.8 million)

Since healthcare costs are highest toward the end of retirement as health declines, the average annual cost per retiree under Medicare will be lower for a younger population. Looking forward, aging Boomers will make for an older and less healthy retiree population. This will result in significantly higher average per beneficiary expenses, assuming all else remains equal.



Actuarial data reveals marginal changes to projected longevity since 2010. This is a strong indicator that significant improvements in health at an individual level do not explain the relative stability of average per retiree costs. Improvements in healthcare, the efficiency of the delivery of services, increased cost-shifting to retirees (higher out-of-pocket costs), and the effectiveness of the government at negotiating healthcare expenses with providers, have all played a modest role in slowing the pace of rising costs.

Although we have seen a dramatic increase in Medicare Advantage enrollment over the last decade – which was expected to reduce costs to the government – industry data indicates that this too, has not had a particularly beneficial impact on government costs. In fact, there is evidence that the opposite may be true.

Advisors and retirees need to focus on the big picture. The bottom line is Medicare costs have increased 73% since 2011, from \$522.9 billion to \$905.2 billion in 2022.

Our actuarial data, which is based on 530 million actual healthcare claims, shows that annual total healthcare costs for 65-year-old retirees have increased by 60% since 2011. A healthy 65-year-old couple would have spent \$8,900 in 2011 on Medicare Part B and D premiums, supplemental insurance, dental insurance, and out-of-pocket costs for hospitalization, doctor visits, tests, prescription drugs, dental, vision and hearing. Today, a 65-year-old couple will spend \$14,100 – an increase of \$5,200.

Using this data, combined with government projections for premium increases, economic and inflation projections, lifetime costs for this couple starting Medicare in 2023 will be substantial. We expect to see the decades-long trend of healthcare costs rising at 1.5–2 times consumer price inflation (CPI) to continue. For all premiums and out-of-pocket expenses, our planning data shows they should expect just over \$780,000 (future value) in total retirement health-related expenditures. This assumes they live to actuarial life expectancy of 88 (male) and 90 (female). To address these expenses, they will need to have saved \$260,995 at retirement, assuming a 6% return on their portfolio, annual withdrawals to fund all costs less Medicare Part B (funded via Social Security), and a balance at longevity of zero.

The following table shows their expected annual costs in retirement.

#### **Retirement Healthcare Expenses: 65-Year-Old Healthy Couple Retiring in 2023 (National Average)**

<b>Age/Year</b>	<b>Annual Cost</b>
Age 65 (2023)	\$14,100
Age 75 (2033)	\$26,042
Age 85 (2043)	\$45,114
Average Annual*	\$30,144
Lifetime Total	\$780,361

\*For years in which both spouses are alive (2023-2046)

Medicare's current solvency expectation of 2031 reflects rising costs and the need to either increase funding or make changes to the program to ensure it can cover future expenses. The government, advisors or clients cannot sit back and relax.



The expectation should be that premiums will continue to increase, and retirees should anticipate picking up more of the cost of healthcare. In terms of retirement benefit from Social Security, changes to the Full Retirement Age and benefit payouts based on claim age are also likely.

From a statistical standpoint, the demographic impact of Boomer retirements may make it look like government costs are stable on a per-retiree basis, but as we have shown for individual retirees, costs have been rising over the last decade, and are on track to continue to do so. Per beneficiary costs to the government will likely look very different over the next two decades.

### **HealthView Services Data**

HealthView Services draws upon CMS and SSA estimates, actual cost data from 530 million healthcare claims, actuarial data, and measures of the components of healthcare inflation to project retirement healthcare expenses for planning purposes.

### **About HealthView Services**

HealthView Services provides retirement healthcare, Social Security, and long-term care planning, portfolio management tools and data to many leading institutions and advisors in the financial services industry. HealthView's [White Papers](#) provide context and perspective on key retirement-planning issues.

**HealthView Services, Inc.**

[www.hvsfinancial.com](http://www.hvsfinancial.com)

55 Ferncroft Road, Danvers MA 01923

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