



## **Fidelity Investments estimates \$225,000 needed to cover retiree health care costs**

BOSTON, March 5, 2008 - A 65-year-old couple retiring in 2008 will need approximately \$225,000<sup>1</sup> to cover medical costs in retirement<sup>2</sup>, according to Fidelity Investments' latest health care cost estimate, released today. This figure is a 4.7 percent increase over the 2007 estimate of \$215,000.

The retiree health care cost estimate is issued annually by Fidelity Investments. Since the estimate was first calculated in 2002, the number has risen a total of 41 percent, with an average annual increase of 5.8 percent.

As in past years, the 2008 estimate assumes individuals do not have employer-sponsored retiree health care coverage and includes expenses associated with Medicare Part B and D premiums<sup>3</sup> (30%), Medicare cost-sharing provisions -- co-payments, co-insurance, deductibles and excluded benefits (39%) -- and prescription drug out-of-pocket costs (31%). It does not include other health-related expenses, such as over-the-counter medications, most dental services and long-term care.

"With health care costs continuing to outpace wage increases and companies trimming retiree health benefits, financing health care has to be central to retirement planning," said Brad Kimler, executive vice president, Fidelity Investments. "Given current economic conditions, this is especially true for those planning to retire in the next few years or before they qualify for full Social Security or Medicare benefits."

Significant drivers of the retiree health care cost estimate's increase from 2007 to 2008 include higher unit costs (e.g., the price of a doctor's visit) and higher utilization rates for health care services (e.g., more doctor visits per person). Additional contributing factors include rising costs associated with new technologies, such as better diagnostic testing, prescription drugs and an increase in certain chronic conditions (e.g., diabetes).

"In today's environment, successfully meeting retiree health care costs will take a very personalized approach to planning on the part of the individual, since actual costs can vary greatly according to one's financial circumstances, health status and geography," continued Kimler.

In an effort to help consumers prepare for retiree medical costs, Fidelity offers the following five steps:

1. **Create an individual retirement plan** - The first step every working American should take is to create an individual retirement plan. In building a plan, workers can factor in their specific circumstances such as current savings, anticipated income sources, lifestyle, expenses, geographic location and likely health care needs in retirement.
2. **Start early and maximize opportunities to save** - Regardless of age, it makes sense for most individuals to begin saving for retiree health care costs as early as possible. The easiest way to do this is to maximize any opportunities offered by an employer, such as enrolling in a Health Savings Account (HSA) or other qualified account earmarked for healthcare. HSAs, which are only available to those enrolled in a high-deductible health plan, are tax-advantaged accounts that allow eligible individuals to pay for qualified medical expenses on a federal tax-free basis. The funds can be used to pay for current qualified medical expenses or continue to potentially accumulate and be used in the future to pay for qualified medical expenses in retirement.

3. **Assess health status and become a smarter consumer of health care** - Individuals should assess their own current health situation or status carefully in order to accurately plan for future medical expenses. If available, employees should take advantage of health planning tools and education offered through the workplace or their health plan provider. Individuals should also look for ways they can become smarter consumers of health care, such as considering generic drugs instead of brand names, becoming better informed about their medical conditions or diagnoses, and decreasing emergency room visits by maximizing preventative services. These small steps can help individuals reduce their health care costs both now and in the future.
4. **Determine details of any employer-sponsored coverage** - Pre-retirees need to determine what, if any, employer-sponsored health care coverage they can rely on in retirement. Those who will have access to an employer-sponsored plan should fully understand the scope, extent and duration of their coverage. Although employers may communicate their plans to employees, it's incumbent upon the individual to thoroughly understand the details of their plan. It is critical for workers to know whether their coverage may end at a specific point, or cost more after retirement.
5. **Understand the financial impact of health care costs on Social Security Income** - Since many retirees rely on Social Security as their primary source of income in retirement<sup>4</sup>, Fidelity calculated the impact that a \$225,000 health care liability would have on a retiree's Social Security benefit. It found that a 65-year-old worker today, who is earning \$60,000 and decides to retire this year, should expect that 50 percent of his or her pre-tax Social Security benefit will be used to pay for personal health care expenses in the next 17 to 19 years.<sup>5</sup>

To help individuals better plan for retiree health care costs, Fidelity offers companies an online calculator that allows employees to estimate their future health care liability. The tool produces a projection of future health care costs factoring in a person's age, location, retirement date and family members. Employees can access the calculator via Fidelity's NetBenefits Web site. For employers who offer the Fidelity HSA<sup>®</sup>, there is an enhanced version of the calculator provided by WebMD, which also incorporates a person's detailed health status and allows employees to project their future HSA accumulation.

### About Fidelity Investments

Fidelity Investments is one of the world's largest providers of financial services, with custodied assets of \$3.3 trillion, including managed assets of more than \$1.5 trillion as of January 31, 2008. Fidelity offers investment management, retirement planning, brokerage, and human resources and benefits outsourcing services to 24 million individuals and institutions as well as through 5,500 financial intermediary firms. The firm is the largest mutual fund company in the United States, the No. 1 provider of workplace retirement savings plans, the largest mutual fund supermarket and a leading online brokerage firm. For more information about Fidelity Investments, visit [www.fidelity.com](http://www.fidelity.com)

<sup>1</sup> Fidelity Consulting, 2008

<sup>2</sup> Assumes no employer-provided retiree health care coverage and life expectancies of 17 years for a male and 20 years for a female

<sup>3</sup> Assumes use of Medicare Part D coverage

<sup>4</sup> Fidelity Research Institute, *2007 Retiree Survey*

<sup>5</sup> Fidelity Consulting, 2008. Example assumes a fully insured individual retiring in 2008 at his/her Full Retirement Age with a Social Security payment based on a final annual salary of \$60,000. Also assumes a 3% Social Security annual cost of living adjustment and a medical inflation rate of 6.6% each year.