Health Care and Retirement Security

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Introduction

Health care is an important aspect of retirement planning. Retirees should determine where coverage will come from in retirement—it is typically a combination of coverage from former employers, public programs such as Medicare, and private insurance. Retirees also must consider the cost of this coverage including premiums and additional recurring and nonrecurring expenses. Some of these costs will be covered by insurance and some will have to be paid out of pocket. Furthermore, these costs depend on several factors including health status, longevity, and even marital status. While CalSTRS has limited visibility of members' experience with health care, this report provides information and guidance on the nature of health care in retirement.

The Cost of Health Care

Employee Benefits Research Institute

Every few years, The Employee Benefits Research Institute—an independent, nonprofit and nonpartisan research organization—estimates the cumulative savings needed at retirement to cover medical expenses at a consistent level throughout retirement when retiring at age 65. Medicare coverage begins at age 65, therefore the calculation includes basic and supplemental Medicare coverage as well as out-of-pocket prescription drug expenses. These figures also assume these savings will earn interest over time. This means the actual cumulative costs will likely be higher. For 2016—assuming a 90 percent chance of meeting all health care expenses in retirement and a median need for prescription drugs—a male needed $127,000, a woman needed $143,000 and a married couple needed $265,000 in savings when they retire.[1]

Mercer Health and Benefits/Vanguard

Mercer Health and Benefits—an actuarial and benefits consulting firm focused on health and welfare benefits for employers and their employees—in conjunction with Vanguard—a large investment management company—recently produced an annual cost estimate of health care in retirement. The Mercer-Vanguard research predicted an annual health care expense for the average 65-year-old woman to be $5,200 in 2018.[2] As the report notes, this value changes based on other factors such as health status, coverage choices, geography, income and employer support. When factoring in these variables, the annual amount of health care costs in total could fluctuate by thousands of dollars in either direction. This value is also expected to increase over the retiree's lifetime with health care inflation—which outpaces regular inflation—and as the consumption rate of health care generally increases with age. The main message of the report is that generalizing expenses can be valuable, but it is most important for retirees to consider the various factors listed above when planning for their health care expenses throughout retirement. Another emphasis of the report is to plan for health care expenses on an annual or monthly basis since most of the cost—mainly insurance premiums—are paid on a monthly basis and can be budgeted into monthly retirement income.

Consumer Expenditure Survey

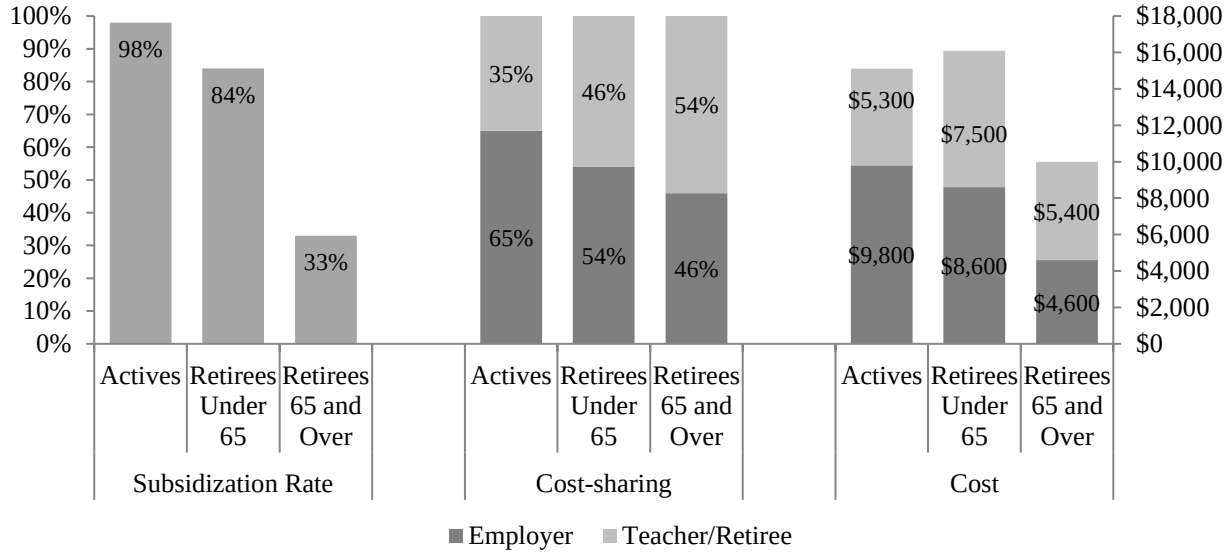
In addition to the studies noted above, the Consumer Expenditure Survey from the Bureau of Labor Statistics provides data on expenditures, income, and demographic characteristics of consumers in

the United States. The Health Care category in the survey includes health insurance, medical services, drugs, and medical supplies. For those 65 and older, the average annual expenditure for Health Care for the 2015–16 year was about $5,900. However, when controlling for geography, the western region of the United States has an average annual expenditure for Health Care of more than $6,100.[3] Regardless of location, about 68 percent of these expenses are for the first category—health insurance.

Employer-subsidized Coverage for California K-12 Educators

The California Department of Education collects salary and benefit information for K-12 educators yearly. (No parallel database exists for community college faculty. CalSTRS only surveys to collect community college benefit information for the Triennial Health Benefits Study.) For the 2016–17 school year, 97 percent of employers responding to the Department of Education—representing 98 percent of active, full-time equivalent K-12 teachers—report they offered employer-subsidized health coverage. The average total annual cost for all health plans for active teachers was about $15,100, with the employee share being about $5,300 (35 percent). For retirees below age 65, 68 percent of employers responding—representing 84 percent of active, full-time equivalent K-12 teachers—report they offered employer-subsidized health coverage. The annual average total cost of all plans for retirees under age 65 was about $16,100, with the employee share about $7,500 (46 percent). For retirees age 65 or older, 16 percent of reporting districts—representing 33 percent of active, full-time equivalent K-12 teachers—report they offered employer-subsidized coverage. The average total annual cost for all health plans offered by former employers for CalSTRS retirees over age 65 was about $10,000. The employee share of this cost was $5,400 (54 percent).

Figure 1. K-12 Employer Subsidization Rate, Cost-sharing and Cost
by Status



It is important to evaluate these figures within the context of Medicare eligibility rules. Those under age 65 do not yet qualify for Medicare coverage. This makes them more vulnerable to gaps in health care coverage, particularly if their employer ends support and they cannot afford the full cost of coverage. As an older group they likely consume more health care than younger individuals,

but do not receive the benefit of those 65 and older who receive the offset of expenses that Medicare provides. This could explain why the annual cost and employee share for retirees under age 65 are higher than for active employees. However, this age group has a higher rate for employer-subsidized coverage than those retirees age 65 and older. This may suggest that employers understand the potential vulnerability of retirees under age 65 and are trying to bridge the gap until Medicare eligibility begins. While employers help extend coverage and cost sharing for this group, the retiree is subject to higher costs to mitigate the risk associated with their coverage.

For those age 65 and older, this group is less vulnerable than those under age 65 because Medicare reduces the risk of a gap in health care coverage. This may account for the decrease in the employer-subsidization rate for those age 65 and older. Additionally, Medicare is the first payer for health care costs. This translates to a lower average annual total cost of employer-subsidized coverage than for active employees or retirees under 65. Plans subsidized by a former employer for those 65 and older may benefit from cost savings by combining additional coverage with basic Medicare services, or they may only pay for costs beyond Medicare. However, the retiree still pays on average $50 more annually than an active employee.

Medicare and CalSTRS Medicare Premium Payment Program

Medicare

Medicare is a federal program established in 1965 to help the elderly meet health care needs in retirement. Before Medicare, only about half of seniors over age 65 had health benefits. Medicare covers a core set of medical services as outlined below—commonly discussed as four distinct parts—each with varying associated costs:

Part A: Hospital stays, nursing facilities, hospice care, lab tests, surgery, and home health care.

Part B: Medical visits and outpatient care, such as seeing your physician on a non-urgent basis, durable medical equipment, and some preventative services.

Part C: In lieu of Parts A and B, one can purchase the same services as part of a combined coverage plan, also known as Medicare Advantage plans, which often include prescription, vision, and dental coverage.

Part D: Prescription drug coverage for those who are enrolled in original Medicare (Parts A and B, or Part C).

Additionally, there are Medigap plans that supplement Medicare benefits beyond those offered in Parts A, B, and D (those who enroll in Part C cannot purchase a Medigap plan). Medigap plans must conform to federal and state laws to ensure they meet certain coverage standards.

Upon reaching age 65, enrollment and deductions for Medicare Part A and Part B are automatic for Social Security or Railroad Retirement Board benefit recipients. CalSTRS members who do not receive these benefits through service from a non-CalSTRS-covered employer must enroll in Medicare Parts A and B to receive coverage. The 2018 premium for Medicare Part A for those not eligible for premium-free Part A—and having performed less than 30 quarters of Medicare-covered service—is $422 per month. At 30 quarters, the cost drops to $232 per month. The cost for Medicare Part B in 2018 is $134 per month. Parts C and D have varying costs based on the type of coverage offered and, for Part D, income.

Workers, including CalSTRS members, who perform 40 quarters—equivalent to 10 years—of Medicare-covered service qualify for premium-free Medicare Part A. This qualification extends to the worker's spouse. However, service performed by California teachers before 1986 was not subject to Medicare taxes. As of April 1, 1986, state and local public employees became subject to Medicare coverage. These employees, including CalSTRS members, did not pay Medicare taxes on their earnings prior to this date. Any employee hired on or after this date became subject to the mandatory coverage and has paid Medicare taxes.

Division Elections

Following the implementation of mandatory coverage, school districts could hold elections to let members hired before April 1, 1986, decide if they would begin paying the Medicare tax. These were called division elections because members were divided into two groups: those who chose to pay the Medicare tax and those who did not.

The legacy of the mandatory Medicare tax is represented by three categories of CalSTRS members today:

- Members hired before April 1, 1986, who have never paid the Medicare tax.
- Members hired before April 1, 1986, who began paying the Medicare tax after their district's election.
- Members hired on April 1, 1986, or later who have always paid the Medicare tax.

There may be members within all three groups who are not eligible for premium-free Part A having never paid the tax while employed, never electing to pay the tax, or not having worked long enough while paying the tax to qualify. The CalSTRS Medicare Premium Payment Program was established as of January 1, 2001, to help with Medicare Part A premiums for CalSTRS members who remained without premium-free Part A. While it assists with premiums for the federal Medicare program, CalSTRS Medicare Premium Payment Program is separately administered and governed by the Teacher's Retirement Law.

For the 2017–18 fiscal year, CalSTRS paid approximately $27.5 million in Medicare Part A premiums for its eligible members. In total, the program costs approximately $28.5 million to administer. This total administration cost also includes staffing for the program, surcharges CalSTRS pays to the Medicare program on the member's behalf due to late enrollment, and the cost to administer deductions for Part B premiums, which are not paid for by CalSTRS. CalSTRS

offers a service to deduct Medicare Part B premiums, as wells as other types of deductions such as health insurance and association dues. This is explained in more detail in the next section.

Insurance Deductions vs. CalSTRS Medicare Premium Payment Program

CalSTRS does not administer a health benefits program, but facilitates the payment of health care premiums—to both public and private entities—and membership dues—such as for the California Retired Teachers Association—by deducting these amounts from a retired member's monthly benefit and sending them to the recipient organization. Currently, 28 percent[4] of retired members take advantage of this program and have at least one deduction through CalSTRS.

The deduction program is separate from the CalSTRS Medicare Premium Payment Program. If a retired member qualifies for the Medicare Premium Payment Program, CalSTRS pays the premium and applicable surcharges for Medicare Part A on the member's behalf at no cost to the member. Regardless of a member's eligibility to have CalSTRS pay their Medicare Part A premium, CalSTRS can deduct the member's monthly premium for Medicare Part B from their monthly benefit and send it to the Centers for Medicare and Medicaid Services.

Qualifying for the CalSTRS Medicare Premium Payment Program

The Teachers' Retirement Law outlines specific eligibility requirements for the CalSTRS Medicare Premium Payment Program. The initial requirements are relatively straightforward:

- The member must retire prior to January 1, 2001 (the date the program went into effect).
- The member must be at least 65 (when Medicare coverage begins for everyone).
- The member must not qualify for premium-free Medicare Part A.
- The member must enroll in both Medicare Part A and Part B.

The Teachers' Retirement Board has the authority to extend eligibility to those who retire after January 1, 2001. The last extension allowed members who retired before July 1, 2012, to be eligible for the program. In addition to the aforementioned requirements, there are additional requirements for members who retire between January 1, 2001, and July 1, 2012. These requirements stem from the division elections held by the school district from which the member retires or the district where the member was working when they began receiving a disability benefit.

For both retired and disabled members with retirement dates between January 1, 2001, and July 1, 2012, if the election was conducted before the CalSTRS Medicare Premium Payment Program went into effect on January 1, 2001, the member's decision during the election is not considered. If the election is conducted after that date, the member has to retire after the election took place. Additionally, if the member was below age 58 at the time of a later election, the member has to have elected to pay the Medicare tax to be eligible for the CalSTRS Medicare Premium Payment Program. For members receiving a disability benefit, if the member was no longer actively working at the time of a later election, the election must have been conducted before the member reached normal retirement age. If no division election has been conducted, the member is not eligible for the CalSTRS Medicare Premium Payment Program.

Member Perceptions of Health Care Costs in Retirement

Difficulty estimating health care costs in retirement can lead to uncertainty as retirement approaches. This uncertainty can impact confidence in planning for retirement adequately. The following data is from the Retirement Readiness Assessment—a biennial survey of CalSTRS active and retired members, both K-12 and community college faculty, on a broad range of topics relating to retirement preparedness and expectations. The survey was most recently conducted in the spring of 2017. A section of this survey asks about health care related matters. This research provides a deeper understanding of member expectations around the impact of health care costs in retirement.

Figure 2. How significant of an obstacle is/was medical and health care expenses in preventing you from saving sufficiently for retirement?

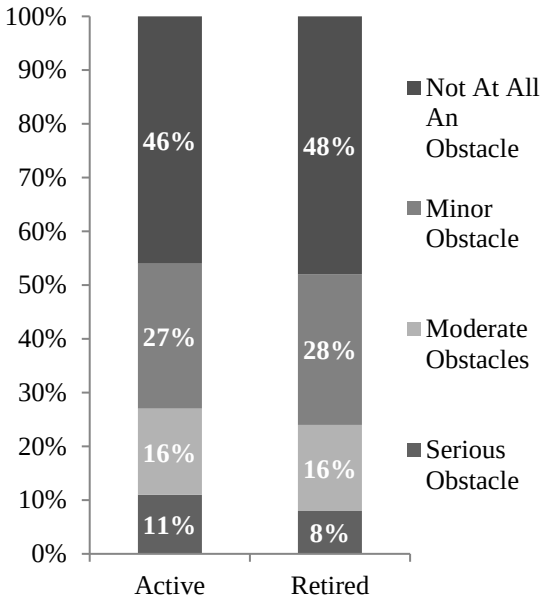
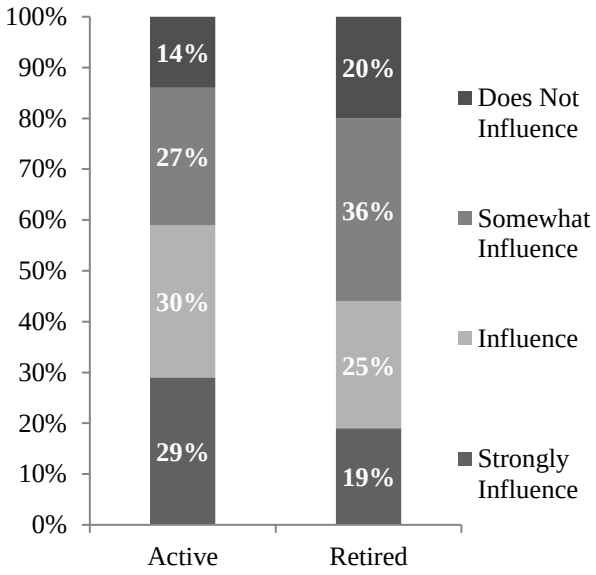


Figure 3. To what degree does the cost of health care influence your level of confidence you will have enough money to live comfortably throughout your retirement years?



The majority of *active* members report that health care expenses are a minor obstacle (27 percent) or not at all an obstacle (46 percent) to saving for retirement—Figure 2. Despite this, more than half of active members also report that the cost of health care influences (30 percent) or strongly influences (29 percent) their level of confidence in having enough money to live comfortably throughout their retirement years—Figure 3. These two findings suggest that the cost of health care while working does not represent a significant *impediment* to saving for retirement. However, members indicate that health care costs influence their *confidence* in having enough money to live comfortably throughout retirement.

Retired members were also asked to reflect on the significance of health care expenses while saving for retirement. Similar to active members, the majority of retirees report health care expenses were a minor obstacle (28 percent) or not at all an obstacle (48 percent) in saving for retirement—Figure 2. Also, less than half retired members indicate the cost of health care influences (25 percent) or strongly influences (19 percent) their confidence in having enough money to live comfortably throughout retirement—Figure 3. Retired members report that health

care expenses influence their confidence much less than active members. This suggests that the impact health care expenses have on the level of confidence diminishes once a member is retired and a clearer picture of cost is realized.

Figure 4. **So far in your retirement, has your spending on health care been more, less or about the same as you expected?**

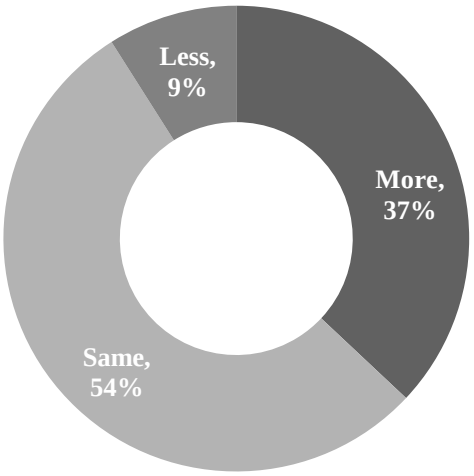
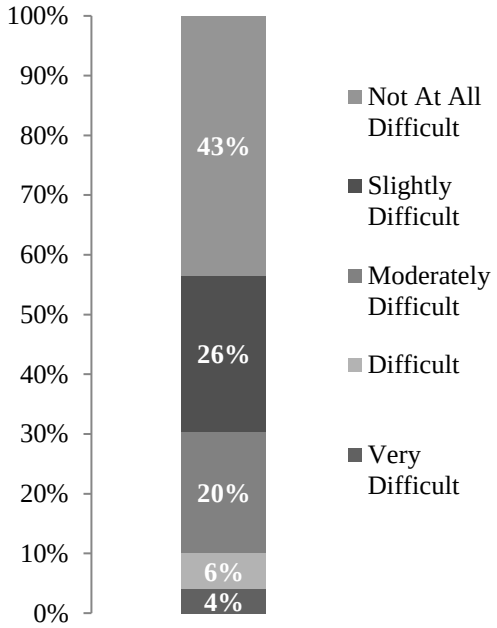


Figure 5. **How difficult is it to afford your private health insurance premiums?**



When asked about how the cost of health care in retirement has met their expectations, the majority of retirees indicate their spending on health care to be the same (54 percent) or less (9 percent) than they expected—Figure 4. Further, retired members with private health insurance indicate those premiums to be not at all difficult (43 percent) or only slightly difficult (26 percent) to afford—Figure 5.

These findings suggest some disconnect between members' expectation of the burden of health care expenses and the reality once retired. Even when members report health care expenses are not an obstacle to saving for retirement, and private health insurance premiums are not difficult to afford in retirement, health care still influences active and retired members' confidence in their retirement security. An assessment of the impact of health care costs on retirement income can lend clarity to why health care concerns members.

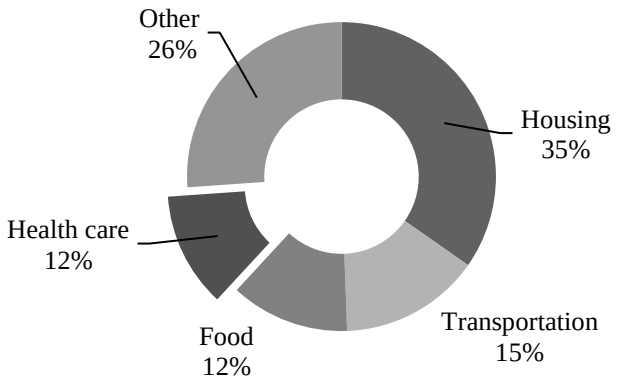
Impact of Health Care Costs on Retirement Income

As noted earlier, the Consumer Expenditure Survey from the Bureau of Labor Statistics can provide context for the impact of health care services on retirement income. Three-quarters of annual expenses of those 65 and older in the western region of the United States are consumed by Housing (35 percent), Transportation (15 percent), Food (12 percent), and Health care (12 percent). Therefore, health care expenses represent about an eighth of all expenses for those age 65 and older.[5] The Mercer-Vanguard research referenced earlier also underscores the importance of

understanding the relative impact of health care expenses on the total household budget. While health care may be the fourth highest expense, it is by far not the most costly expense to consider.[6]

Figure 6. Distribution of Household Expenses

Age 65 and Older, Western United States

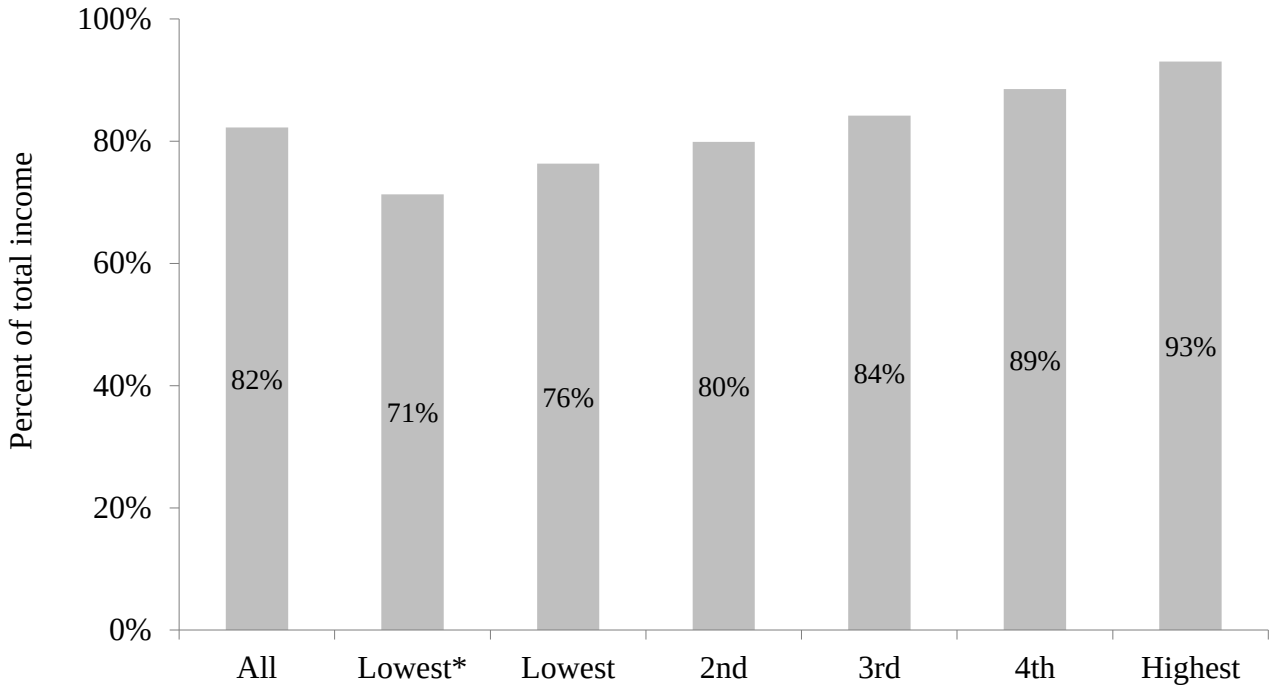


Center for Retirement Research at Boston College

For additional perspective on the impact that health care costs have on retirement income, the Center for Retirement Research at Boston College examined how medical costs deplete retirement income. The Center calculated net retirement income ratios—the percentage of retirement income remaining after accounting for health care premiums and other out-of-pocket health care expenses. Their study provides several insights into how medical expenses impact retirement security. As expected, the lower the total retirement income, the more medical expenses impact income—because it absorbs a larger percentage of income.[7] For example, those in the top quintile of total retirement income retain 93 percent of that income after medical expenses. However, those in the lowest income quintile only retain 71 to 76 percent of their total income—Figure 7.[8]

Those with the highest total incomes still spend, on average, $2,600 more on health care than those with the lowest incomes. This suggests that wealthier individuals are impacted less by medical costs, despite paying much more. It is worth noting that the difference in the cost between the highest and lowest income quintile is due to the amount spent on insurance premiums. The difference in the amount spent on other out-of-pocket costs is about $600, while $2,000 of the $2,600 in additional spending goes toward insurance premiums. Ultimately, this suggests the difference in the net income ratio between the wealthiest and poorest individuals is primarily due to retirement income overall. For instance, those with higher incomes buy more expensive supplemental insurance because the resources exist to do so. Those with lower retirement income purchase less costly supplemental insurance or rely on Medicare alone—and despite paying less, lower income individuals retain proportionally less of their total retirement income after medical expenses.

Figure 7. Share of Total income Remaining after Medical Out-of-Pocket Spending in 2014
by Household Income Quintile



*excluding Medicaid
Source: Adapted from *How Much Does Out-of-Pocket Medical Spending Eat Away at Retirement Income?* (CRR Working Paper No. 2017-13).[9]

The Center for Retirement Research notes additional findings of interest. For example, aging does not seem to increase the burden of medical expenses. Throughout retirement, net income ratios after medical expenses change very little. Additionally, while the net income ratio after medical expenses is lower for women, this is not due to the cost of medical expenses, but rather to the well-known finding that women receive less retirement income than men. Also, long-term care *minimally* impacts the average net income ratio because these costs—despite their large absolute amount—materialize less frequently.

Catastrophic Costs in Retirement

As noted in the previous section, out-of-pocket medical costs comprise about a quarter of the difference in health care spending between high income and low income groups. Regardless of income, catastrophic events significantly influence out-of-pocket costs, and the risk of a catastrophic event increases with age.[10] Those who spend the most on total medical costs spend almost double the average individual. Relatively few suffer catastrophic events, but the associated cost is so high that it influences the average cost and the subsequent perception of retirement security.

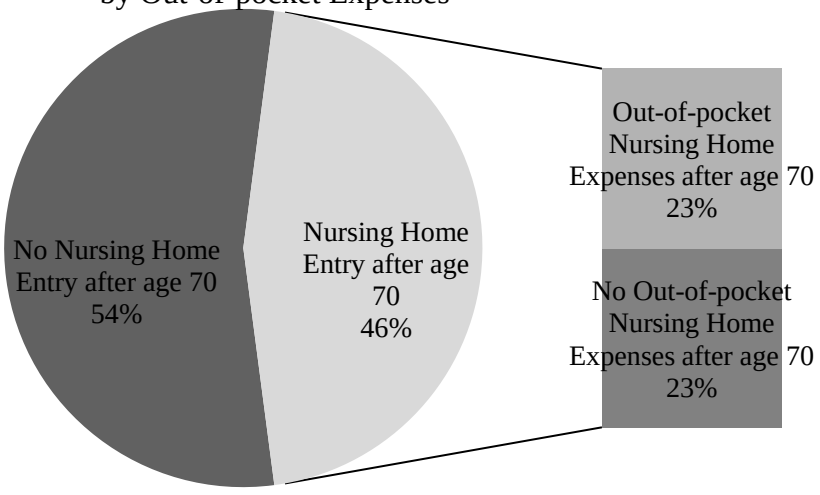
The Employee Benefits Research Institute recently examined the unpredictable and catastrophic costs of health care in retirement. The studies do not include health insurance premiums; however,

as noted earlier, premiums are more predictable and can be reasonably estimated when planning for retirement. Out-of-pocket cost is unpredictable—it can change dramatically as circumstances change and strain retirement income while accelerating retirement asset depletion. The uncertainty around out-of-pocket costs can have a negative influence on the sense of confidence entering retirement, but the research suggests that health care cost is moderate for the majority of retired individuals.

When recurring and non-recurring out-of-pocket health care costs for individuals age 65 and older are examined separately, recurring expenses such as doctor visit fees, prescription drugs, and dentist visits are relatively stable and predictable even with advancing age, regardless of marital status. Non-recurring expenses—which include hospital stays, outpatient surgery, home health care, and nursing home stays—introduce significant variation.[11]

When examining cumulative out-of-pocket costs for individuals above age 70 specifically, the costs are generally moderate for most retirees. However, these costs increase with age, and some experience very high costs. For the longest living individuals—age 95 or older—the median cumulative out-of-pocket cost was $27,400. This means half of retirees in this vulnerable age group paid this amount or less. On the other hand, those with the highest cost skew the mean higher than the reality for most. When calculating the mean, the cost for the eldest more than doubled to $66,800. This is because those with the highest cost who also live the longest had costs around or exceeding $200,000.

Figure 8. Nursing Home Entry after age 70
by Out-of-pocket Expenses



Source: Adapted from *Cumulative Out-of-Pocket Health Expenses After the Age of 70* (EBRI Issue Brief April 2018).[12]

Nursing home care is the most catastrophic of costs[13] and can greatly inflate the total out-of-pocket cost for individuals. However, less than half (45.9 percent) of individuals over age 70 required a nursing home stay. Of those who required nursing home stays, only half of those individuals incurred out-of-pocket costs as a result (23.1 percent of all retirees over age 70)—Figure 8.[14]

The probability of requiring a nursing home stay increases with age. Women tend to live longer than men, and women more often end up with this cost. Additionally, average non-recurring expenses for a married couple, such as nursing home stays, are less than what single individuals pay—a dynamic exacerbated with age. The primary explanation given for this dynamic between single and married individuals is that spouses can provide care while single individuals need to pay for it.[15] It appears men benefit from spousal care more than women, and women may rely more frequently on nursing home care at older ages when they are more likely to be widowed.

While women are more likely to require a nursing home stay, women are *not* more likely to pay out-of-pocket expenses. These costs are usually paid through a combination of Medicare, private long-term care insurance, and other public assistance programs such as Medicaid. However, Medicaid is a program for low income individuals. Additionally, the more non-housing assets one has accumulated, the more out-of-pocket cost is incurred for nursing home stays—because assets need to be spent down to qualify for programs such as Medicaid. This finding is supported by other research conducted by the Kaiser Family Foundation. Kaiser also found that the poorest individuals devote a smaller portion of their resources to health care because Medicaid offsets the cost.[16]

Despite the hardship that nursing home care might present, the median cumulative out-of-pocket cost for nursing home stays for the eldest of individuals is $21,841. This suggests this cost is still moderate for most. While half of retirees over age 70 might need a nursing home stay, the stay is typically short or infrequent, or the cost is covered through means other than out-of-pocket spending, therefore it does not greatly impact cumulative cost in retirement.[17]

Health care needs can be financially catastrophic, but the reality is that most retired individuals will not require catastrophic services, or at the very least, will not have to pay for them out-of-pocket. The uncertainty is the likeliest explanation of the impact health care costs can have on retirement confidence. Once a catastrophic event occurs, the probability for similar care in the future increases, at which point it might be too late to adequately plan for those higher than expected costs. The probability may be small, but the uncertainty can be unsettling.

One solution is to consider long-term care insurance to help smooth the cost over a lifetime, rather than having to deplete resources in retirement to accommodate costs such as nursing home stays or in-home health care.[18] Long-term care insurance can also be budgeted when planning for retirement.[19] An individual age 30 purchasing comprehensive coverage could expect the monthly premium to be over $150. Each additional decade waiting to purchase the coverage increases the monthly premium. For example, at age 50, the monthly premium increases to over $200. Delaying purchase until age 60 increases the monthly premium to over $300.[20] As with any insurance, purchasing earlier helps lower the monthly costs, but the price could seem high for younger individuals depending on income and available resources.

Member Outlook

There is some difficulty estimating the health care cost for CalSTRS members specifically. CalSTRS only collects information needed to administer benefits, and the system does not administer a health benefits program. Health benefit information provided to the system is voluntary and tied to enrollment in the CalSTRS Medicare Premium Payment Program or to the establishment of an insurance deduction from the monthly benefit payment. Despite the possible selection bias that can emerge from these data, they may provide some insight into the outlook for retired members.

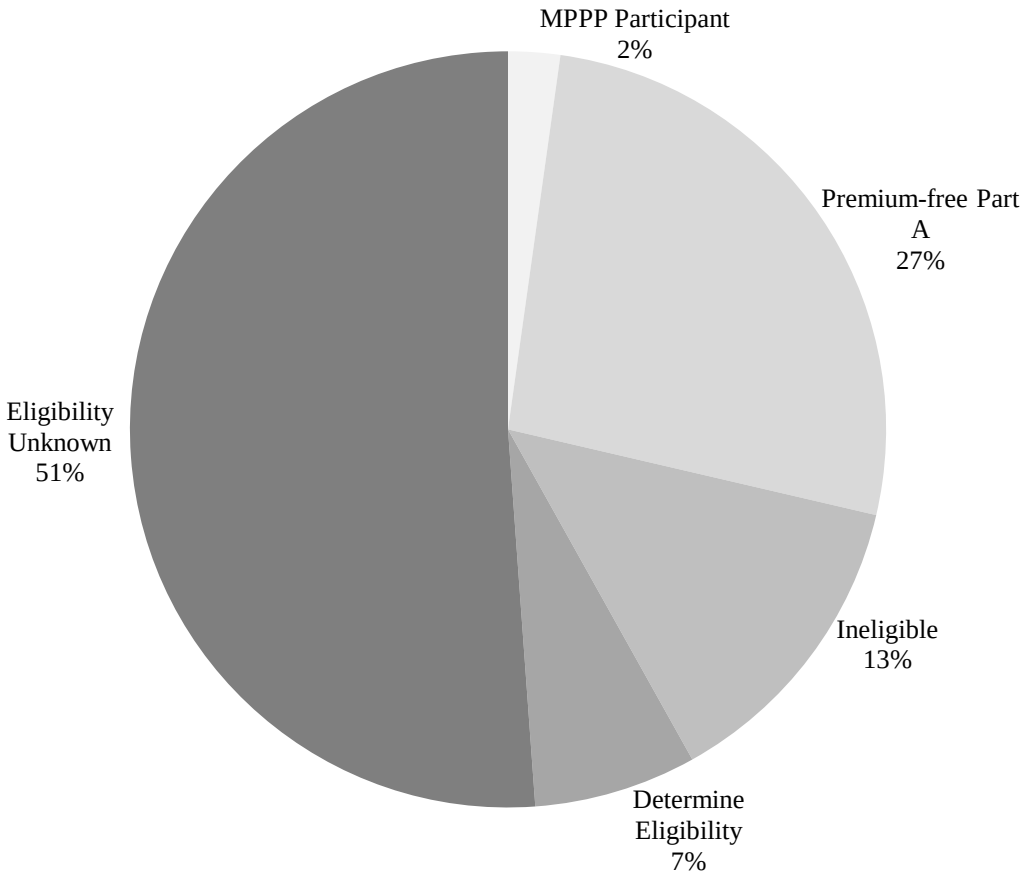
Health insurance deductions for retired members, both K-12 and community college faculty, were reviewed to estimate the cost incurred for insurance premiums (in addition to Medicare premiums).[21] From these data, the mean insurance deduction from benefit payments is about $300 per month.[22] As an additional reference point, retired members report on the Retirement Readiness Assessment spending a mean of $300 per month on private health insurance premiums. It is likely that $300 per month for health insurance premiums is a reasonable estimate for retired members.

Regarding the CalSTRS Medicare Premium Payment Program, CalSTRS pays the Medicare Part A premium for 5,911 retirees (2 percent).[23] All other retirees can be assessed to determine if they might qualify for premium-free Medicare Part A or if they might be eligible for the CalSTRS Medicare Premium Payment Program—under both these scenarios the retired member will not bear the cost of the Medicare Part A premium.

While CalSTRS has no visibility of a member's eligibility for premium-free Medicare Part A—either through other employment or a spouse—criteria can be used to estimate whether a member may qualify for premium-free Part A through their CalSTRS service. As mentioned earlier, all CalSTRS members first hired on or after April 1, 1986, are required to pay the Medicare tax. Additionally, Medicare Part A is premium-free after 10 years—or 40 quarters—of paying Medicare taxes. Another 70,398 retired members (27 percent) should qualify for premium-free Part A based on their CalSTRS service alone, having a first membership date of April 1, 1986, or later, and having at least ten years of service credit. [24]

With a retirement date after the CalSTRS Medicare Premium Payment Program ended or because their district never held a Medicare division election, another 35,313 retirees (13 percent) would not be eligible for the CalSTRS Medicare Premium Payment Program. Additionally, 18,531 retirees (7 percent) would require a detailed review of their account to determine their eligibility. These 7 percent of retirees have a retirement date between January 1, 2001, and June 30, 2012, and their eligibility depends on circumstances around the division election for the district they retired from and how they voted in that election.

Figure 9. CalSTRS Medicare Premium Payment Program Status



MPPP Participant: CalSTRS is currently paying Medicare Part A and any applicable surcharges for the member.
Premium-free Part A: The member qualifies for premium-free part A based on their CalSTRS work history (first hired on or after April 1, 1986 with at least 10 years of CalSTRS service credit).
Ineligible: The member's retirement date is outside of the eligibility dates for the CalSTRS MPPP or the member's district never held a division election.
Determine Eligibility: Detailed review of the member's account is required to determine their eligibility.
Eligibility Unknown: The member would be eligible for the CalSTRS MPPP if they do not qualify for premium-free Part A through other non-CalSTRS-covered employment or a spouse.

The remaining population—136,286 retirees (51 percent)—have a retirement date before January 1, 2001, or the date of federal approval for the employer division election is before January 1, 2001, or the district is subject to some other special circumstance that makes any retiree from that district eligible for the program. These retirees would be eligible for the CalSTRS Medicare Premium Payment Program assuming they do not receive premium-free Part A through other employment or a spouse.

While the eligibility for this final group is unknown, it should be reasonable to conclude this group determined they did not need the program and receive premium-free Part A through some other means. Firstly, CalSTRS sends a letter to all benefit recipients as they approach age 65 notifying them of the CalSTRS Medicare Premium Payment Program. This letter includes requirements to be eligible for the program and instructs the member to contact the Social Security Administration to determine if they already receive Medicare Part A premium-free. It also includes the *Medicare Payment Authorization* form which includes more detail about the eligibility requirements to have CalSTRS pay their Medicare Part A premium and allows the member to sign up for both the CalSTRS Medicare Premium Payment Program and Medicare Part B deductions. Secondly, during the February 2017 Teachers' Retirement Board meeting, Milliman reported that 90 percent of CalSTRS Medicare Premium Payment Program enrollments occur when an eligible retiree turns 65—when Medicare eligibility begins and soon after the member receives CalSTRS letter.

Assuming a retired member age 65 or older pays about $300 per month on private health insurance premiums and has premium-free Medicare Part A—or subsidization through the CalSTRS Medicare Premium Payment Program—and pays a monthly Medicare Part B premium of $134, the typical retired CalSTRS member age 65 or older pays about $430 per month for health care premiums in retirement. However, there may be additional out-of-pocket costs for members beyond these costs. The mean CalSTRS service retirement benefit is about $4,000 per month.[25] Based on these figures, monthly health care costs for retired members consume 11 percent of their CalSTRS benefit, and may be more or less depending on their needs, their retirement benefit amount, and any other retirement income they may have.

Conclusion

Health care costs in retirement affect perceptions of retirement security. However, exorbitant health care costs in retirement seem to come mostly from catastrophic medical events that produce extreme expense (mostly nursing home stays). Most people either do not need these types of health care services, or when they do, most of the cost is covered through public or private insurance. Nonetheless, the unpredictability of having a catastrophic medical event with associated high costs makes it necessary for individuals to consider this as they plan for retirement. Budgeting within the context of all expenses in retirement, along with considering various other personal circumstances such as current health status, is the most prudent method of ensuring retirement security will not be impacted by health care.

End Notes

[1] Fronstin, P. & VanDerhei, J.. (2017). Savings Medicare Beneficiaries Need for Health Expenses: Some Couple Could Need as Much as $350,000 (Notes January 2017). Retrieved from the Employee Benefit Research Institute website: https://www.ebri.org/pdf/notespdf/EBRI_Notes_Hlth-Svgs.v38no1_31Jan17.pdf

[2] Guyton, D., Leming, J., Weber, S., Youssef, J. & Young, J.. (2018). Planning for health care costs in retirement (Vanguard Research June 2018). Retrieved from the Vanguard website: https://pressroom.vanguard.com/nonindexed/Research-Planning-for-healthcare-costs-in-retirement_061918.pdf

[3] United States Department of Labor. Bureau of Labor Statistics. Consumer Expenditure Survey Summary Tables 2015-16. Retrieved from the Bureau of Labor Statistics website: https://www.bls.gov/cex/tables.htm

[4] Data collected with retirement dates through July 10, 2018. Data was collected only for members in Service Retirement status, which represents the bulk of CalSTRS member benefit recipients. Excludes involuntary deductions such as court ordered deductions and tax levies.

[5] Ibid.

[6] Guyton, D., Leming, J., Weber, S., Youssef, J. & Young, J.. (2018).

[7] McInerney, M., Rutledge, M., & King, S. (2017). How Much Does Out-of-Pocket Medical Spending Eat Away at Retirement Income? (Working Paper No. 2017-13). Retrieved from Center for Retirement Research at Boston College website: http://crr.bc.edu/wp-content/uploads/2017/10/wp_2017-13.pdf

[8] 71 percent of all of those in the lowest quintile retain their income. Those with Medicaid benefits retain 76 percent because of how much Medicaid benefits subsidize health care. Those with income high enough to cross the Medicaid eligibility threshold are impacted the most by medical costs in relation to total income.

[9] McInerney, M., Rutledge, M., & King, S. (2017).

[10] Ibid.

[11] Banerjee, S. (2016). Differences in Out-of-Pocket Health Care Expenses of Older Single and Couple Households (Notes January 2016). Retrieved from the Employee Benefit Research Institute website: https://www.ebri.org/pdf/notespdf/EBRI_Notes_01_Jan16.Wellness-OOP.pdf

[12] Ibid.

[13] Banerjee, S. (2016).

[14] Banerjee, S. (2018). Cumulative Out-of-Pocket Health Expenses After the Age of 70 (Issue Brief April 2018). Retrieved from the Employee Benefit Research Institute website: https://www.ebri.org/pdf/briefspdf/EBRI_IB_446_CatastrophicHealthCare.3Apr18.pdf

[15] Banerjee, S. (2016).

[16] Cubanski, J., Orgera, K., Damico, A. & Neuman, T. (2018). The Financial Burden of Health Care Spending Larger for Medicare Households than for Non-Medicare Households (Data Note March 2018). Retrieved from the Henry J. Kaiser Family Foundation website: http://files.kff.org/attachment/Data-Note-The-Financial-Burden-of-Health-Care-Spending-Larger-for-Medicare-Households-than-for-Non-Medicare-Households

[17] Banerjee, S.. (2018).

[18] Ibid.

[19] Guyton, D., Leming, J., Weber, S., Youssef, J. & Young, J.. (2018).

[20] These projections are obtained from the Federal Long Term Care Insurance Program website, offered to Federal employees and US postal service workers. These projections include 5 years of comprehensive benefits, at the daily benefit amount of $200 a day, with an inflation protection rate of four percent. Monthly premiums projections will change based on variances in these coverage election options. Federal data used as state level data was not available. https://www.ltcfeds.com/ltcWeb/do/assessing_your_needs/ratecalcOut

[21] Data collected with retirement dates through July 10, 2018. Data was collected only for members in Service Retirement status, which represents the bulk of CalSTRS member benefit recipients.

[22] Retirees with only one insurance deduction.

[23] Data collected with retirement dates through July 10, 2018. Data was collected only for members in Service Retirement status, which represents the bulk of CalSTRS member benefit recipients.

[24] Service credit in CalSTRS system can be earned over a longer period of time for part-time teachers. Some with fewer than ten years of service may still qualify for premium-free Part A based on having worked in 40 quarters, but working only part-time. Using ten years of service credit provides a more conservative estimate as to not overestimate those members who may have premium-free Part A.

[25] Data collected with retirement dates through July 10, 2018. Data was collected only for members in Service Retirement status, which represents the bulk of CalSTRS member benefit recipients. Benefit amount used is allowance payable after any modifications due to beneficiary option elections and any cost of living increases.