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How Much Will Health Care Cost in Retirement? Most Americans Have No Idea, Fidelity Finds

Fidelity's annual study found widespread misconceptions about Medicare, HSAs and how much retirees can expect to pay for care.

By Ginger Szala | May 16, 2022

A 65-year-old couple this year can expect to spend an average of \$315,000 on health care and medical expenses throughout their retirement, according to Fidelity Investments, which has \$10.5 trillion in assets under administration, in its annual Retiree Health Care Cost Estimate report.

This is up 5% from last year's findings, and \$274,000 more than what most Americans believe they can expect to spend on medical care in retirement.

For single retirees, the amount is \$150,000 for men and \$165,000 for women.

This estimate is based on the assumption that the retirees are enrolled in traditional Medicare, which covers many medical expenses, and Medicare Part D, which covers prescription drugs.

The survey was conducted Feb. 28 to March 4 among 1,000 adults 18 and older.

Carson Group retirement expert Jamie Hopkins [noted in a tweet](#): "New @Fidelity study shows average 65 year old couple will need \$315,000 in today's dollars to cover their medical retirement expenses.

"It's a lot, but the real risk tends to be out on the tail in that top 10% range where the costs can be completely disruptive to any lifestyle."

More bad news, Fidelity found, is how "out of sync" Americans are with what medical care costs to expect in retirement. While many believe it will cost just \$41,000, 68% believe associated costs will remain under \$25,000.

Indeed, 70% of respondents said they feel unprepared to cover health care expenses in retirement. Those who have health savings accounts feel more prepared, the report found. In fact, 47% of people with HSAs feel they are prepared for health care in retirement expenses, while only 27% of people who don't have HSAs said the same.

HSAs are pretax health savings plans that, according to Fidelity, offer a "triple tax advantage" to users: (1) Contributions are tax-deductible, (2) account money can be spent tax-free for qualified medical expenses and (3) any potential growth is tax-free.

HSA, Medicare Misconceptions

Despite these advantages, HSAs aren't fully understood by many Americans. In fact, 51% of Americans don't know they can invest their HSA, 38% don't know that to open an HSA, they must be enrolled in an HSA-eligible health plan/high-deductible health plan and 44% don't know that HSA contributions are rolled over yearly, staying with the person.

"There continues to be an opportunity for additional education on the power of a health savings account, especially for younger people who likely have decades to save and invest before retirement," said Hope Manion, senior vice president of Fidelity Workplace Consulting.

Older people approaching retirement and Medicare eligibility age also have misconceptions about the government program, the study found.

- Fifty-seven percent of baby boomers incorrectly thought people could enroll in Medicare at age 62 (the age they can begin collecting Social Security). The enrollment age is 65.
- Forty-one percent of baby boomers incorrectly assume that Medicare covers out-of-pocket expenses. These need to be covered by supplemental or Medigap programs.
- Forty percent incorrectly believe Medicare will pay for them to stay in nursing homes when they can no longer care for themselves. Medicare does not cover long-term care or custodial care.

The annual study began in 2002 in an effort to build greater awareness of health expenses in retirement. Back in 2002, the medical cost estimate was \$160,000, about half of today's estimate.