
Effective healthcare
purchasing supports a
more secure retirement

alight

Personalized healthcare choices can reduce retiree costs by tens of thousands of dollars

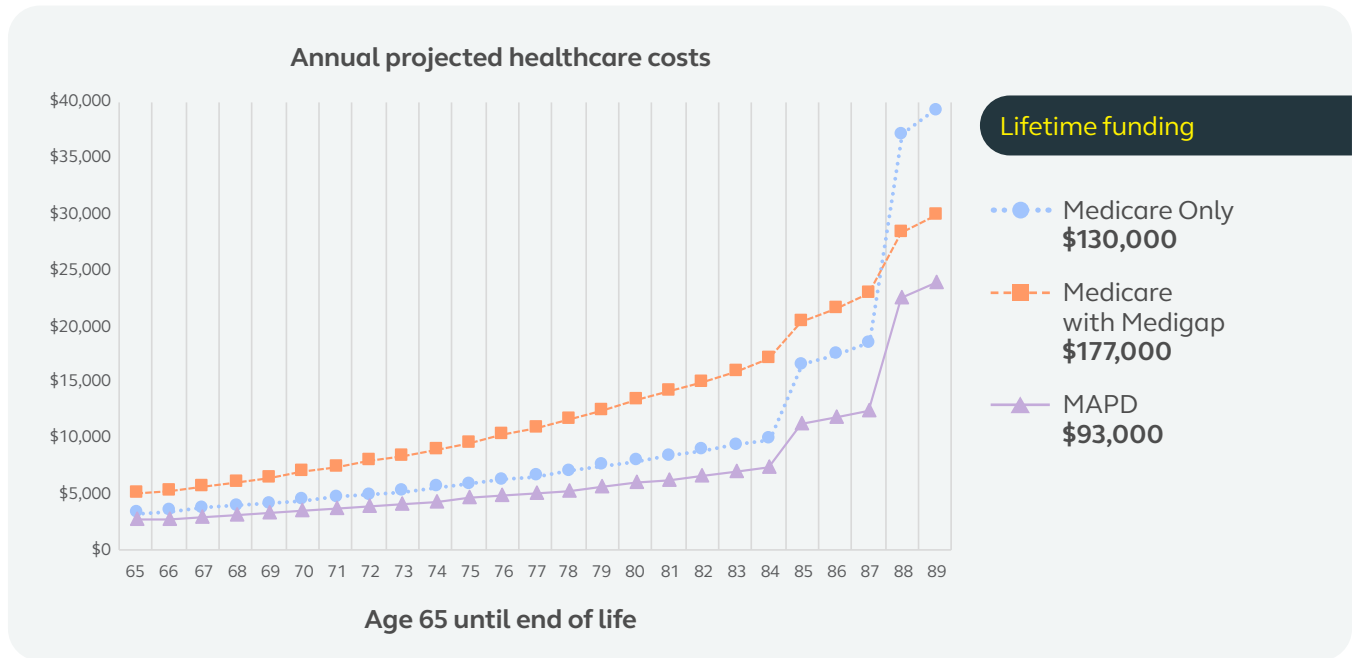
Setting aside funds for healthcare is a critical part of retirement planning and individuals are well-advised to consider these costs early in their savings strategy. The amount needed may vary based on health conditions, family history, location, and life expectancy, and can often change through an individual's retirement. For many retirees, depending on Medicare alone may not be enough to cover their needs, potentially requiring more assets than originally saved. Additional insurance in the Individual market can help manage this financial risk and potentially save tens of thousands of dollars.

There are so many options in the individual market that making the correct choice can be challenging. These choices include supplementing Medicare with **Medigap** or replacing Medicare with a **Medicare Advantage Prescription Drug plan (MAPD)**. What works for one person may not be the most efficient for the next. The following four graphs depict sample retirees ranging from healthy to extremely unhealthy during their retirement years. The graphs show the relationship of costs to health status and plan choice (see detailed assumptions on pages 7 and 8).



Example 1

Retiree with low healthcare needs at 65, deteriorating gradually with high needs near end of life.



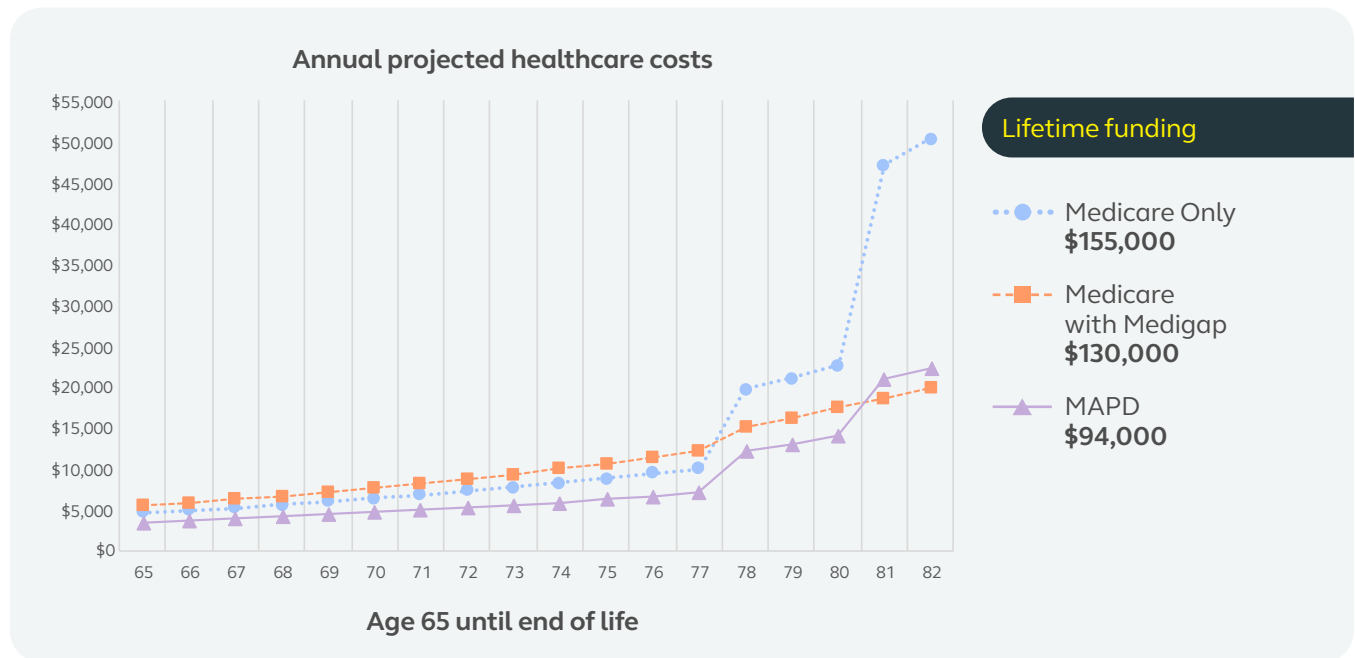
For someone who is healthy at retirement age and then sees their healthcare needs gradually increase over retirement, Medigap is the most expensive option because of higher premiums over the retiree's lifetime. MAPD is the least expensive option across all years, even near end of life when healthcare costs can rise.

Lifetime funding above refers to assets needed at age 65 to cover lifetime healthcare costs. In this example, the difference between the least and most expensive options is \$84,000. To put this into context, this is more than half of median total retirement savings.¹

¹ According to PwC, the median retirement savings account is only \$120,000 for Americans aged 55 to 64.
<https://www.pwc.com/us/en/industries/financial-services/library/retirement-in-america.html>

Example 2

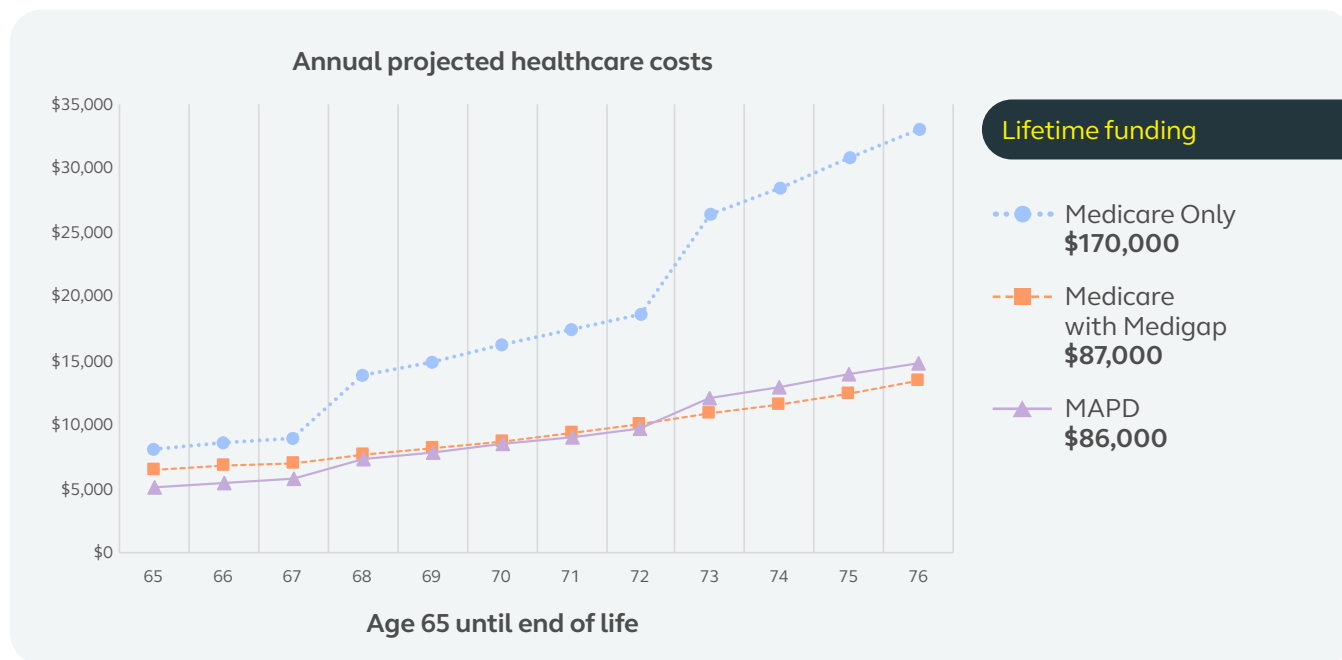
Retiree with moderate healthcare needs at age 65, deteriorating gradually with extreme needs near end of life.



In this example, for someone who is already starting to experience increased healthcare needs, both Medigap and MAPD are less expensive options than Medicare alone, due to higher anticipated out-of-pocket costs under Medicare. Although MAPD is higher cost near end of life, on a lifetime basis, MAPD shows significant savings over Medigap due to premium savings for the earlier years. The difference between the least and most expensive options is \$61,000 over the lifetime of the retiree.

Example 3

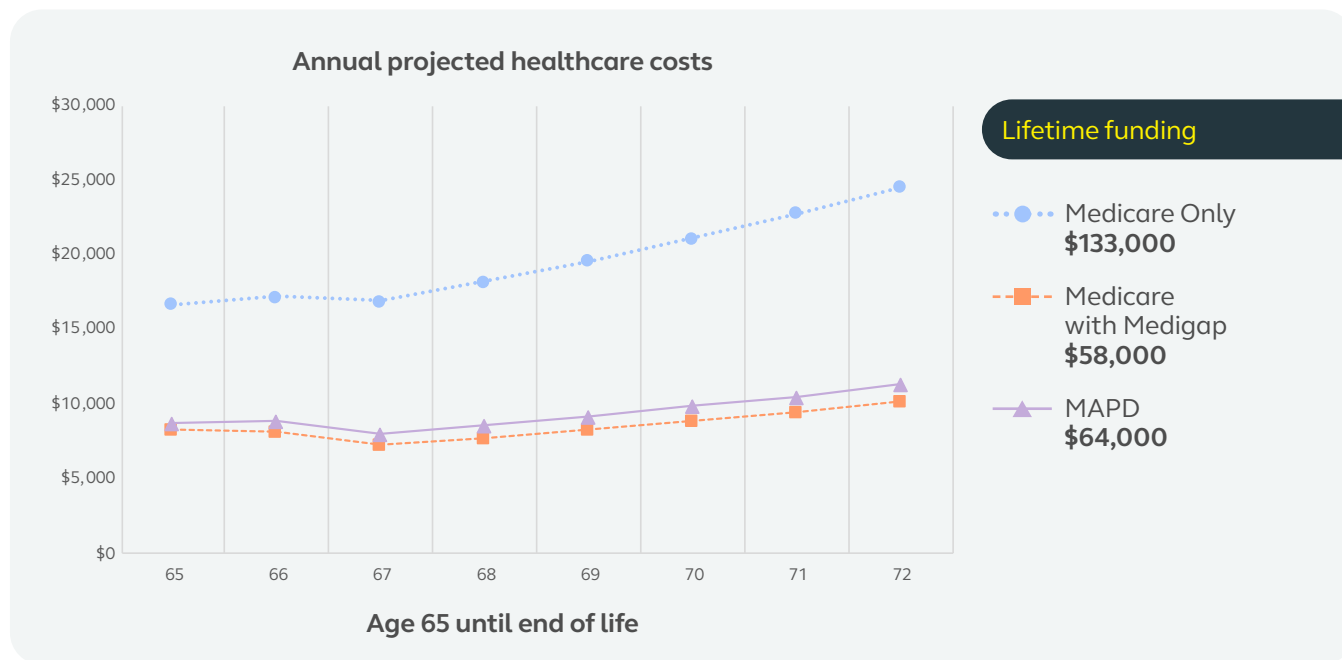
Retiree with high healthcare needs at age 65, deteriorating gradually with extreme needs near end of life.



When an individual already requires significant healthcare at retirement, Medicare alone may be financially catastrophic. Medigap and MAPD provide comparable results, making either choice more cost effective than Medicare. The difference between the least and most expensive options is \$84,000 over the retiree's lifetime.

Example 4

Retiree with extreme healthcare needs at age 65, continuing until end of life.



This represents the 5% of retirees who have the most complicated conditions. It is highly unusual for a retiree to remain in this health status for an extended duration.

A retiree with serious healthcare needs at retirement would be ill-advised to purchase only Medicare. In this example, both Medigap and MAPD are good choices, and Medigap is slightly less expensive. The difference between the least and most expensive options is \$75,000 over the retiree's lifetime.

Conclusion

There is no one-size-fits-all solution for retiree healthcare. Choosing the right plan will vary based on age, health status, location, expected longevity, etc. The examples above show that both Medicare Advantage and Medigap can be good choices depending on the individual retiree's circumstances. The most critically important advice we can offer is for the retiree to choose wisely when first becoming Medicare eligible or transitioning from an employer health plan, or opportunities could be lost. For example, retirees who do not select Medigap initially, may be subject to higher premiums or coverage denials if they try to enroll later.

In addition to the financials, retirees should take into consideration qualitative differences. MAPD are “all-in-one” network-based HMO and PPO plans which include medical and pharmacy benefits and may include additional benefits not found in Medicare.² Enrollees in Medigap must purchase a separate Prescription Drug Plan (PDP) but can see any doctor who accepts Medicare.

Making good choices during retirement is just as important as saving for retirement. Alight Retiree Health Solutions³ provides personalized decision support to help retirees choose among available options. This service can help retirees maximize savings and is free of charge. Alight supports both individuals and employers. Individuals can find more information at retiree.alight.com. Employers can obtain more information at alight.com/solutions/retiree-health-solutions.

Data and assumptions

- Our examples all start at age 65 and end at death. Age at death is assumed to vary between 73 and 90 based on health status. We used a longevity calculator to estimate these ages.⁴
- For each example, we calculate the annual cost of coverage as well as the dollar amount a retiree should set aside to fund healthcare costs during retirement, referred to above as “Lifetime Funding.”
- The annual cost of coverage includes both premium and estimated out-of-pocket (OOP) expenses. OOP expense refers to deductibles, copays, and coinsurance required by the healthcare plan.
- We used 5% annual healthcare cost trends for all premiums and OOP.
- We used 4% annual assumed investment returns for the Lifetime Funding.
- Medicare consists of Part A: inpatient coverage (received free); Part B: outpatient coverage (retiree pays \$164.90 per month premium for 2023) and Part D: prescription drug coverage (retiree pays on average \$31.50 per month premium in 2023).
- Projections reflect premiums and plan designs for 2023 plans available through Alight, at retiree locations where premium costs reflect the national average. The results may be different for retirees who live in low or high-cost areas.

² <https://www.kff.org/medicare/issue-brief/medicare-advantage-2023-spotlight-first-look/>

³ Alight Retiree Health Solutions is available through Alight Health Market Insurance Solutions Inc., Alight Health Market Insurance Solutions Inc. is contracted to represent insurance plans in your state.

⁴ <https://media.nmfn.com/tnetwork/lifespan/index.html#0>

Data and assumptions (continued)

- Medigap costs are an average of premiums and estimated OOP expenses from the two Medigap plans which attract the highest enrollment and are available to all retirees (Plan G and Plan N). The 2023 average monthly premiums at age 65 are \$174 and \$135 in 2023 respectively. We assumed Medigap premiums increase with age based on average carrier rates.
- MAPD costs reflect an average of premiums and estimated OOP expenses modeled under an HMO plan and a PPO plan (assuming the retiree uses out-of-network benefits 5% of the time in the PPO). The average monthly MAPD premium in 2023 is \$18.
- We calculated OOP expenses assuming four health statuses for each age. These are based on the 2019 Merative Marketscan Medicare database trended to 2023 and actual plan designs.

Low	Medium	High	Extreme
Healthiest 50% of claims distribution	Next 25% of claims distribution	Next 20% of claims distribution	Top 5% of claims distribution

- In our projections, healthcare needs vary based on age as well as on placement within the four health statuses shown above. For example, in Example 1, the retiree starts in the Low category and gradually increases to High over the course of their lifetime.
- We reflected the impact of the Inflation Reduction Act (IRA) starting in 2024, by capping retiree out-of-pocket spending for drug benefits at the catastrophic level for 2024 and limiting out-of-pocket costs for drug benefits to \$2,000 for 2025 and thereafter, with the limit indexed at our assumed healthcare inflation rate of 5%.
- Actual retiree results will vary based on their unique circumstances.

The content of this document is the consultative perspective of Alight Retiree Health Solutions and is provided based on internal analyses of the current Medicare plan marketplace as we understand it. This promotional material is intended for use by plan sponsors and is not intended to promote or market any particular plan.

About Alight Solutions

Alight is a leading cloud-based human capital technology and services provider that powers confident health, wealth and wellbeing decisions for 36 million people and dependents. Our Alight Worklife® platform combines data and analytics with a simple, seamless user experience. Supported by our global delivery capabilities, Alight Worklife is transforming the employee experience for people around the world. With personalized, data-driven health, wealth, pay and wellbeing insights, Alight brings people the security of better outcomes and peace of mind throughout life's big moments and most important decisions. Learn how Alight unlocks growth for organizations of all sizes at alight.com.

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