



# The Truth About Health Care Expenses Late in Life

Many retirees fear outliving their savings, but those fears are likely overstated.

July 2023

## KEY INSIGHTS

- Despite strong concerns, the likelihood that health care costs in the final two years of someone's life will inevitably deplete their finances in retirement is low.
- While nursing home and long-term care costs increase with age, data show that most final stays in these facilities lasted less than three months.
- Planning for late life care should incorporate costs versus preferences when evaluating insurance coverage, care providers, and asset preservation needs.



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There is a perception among many retirees that health care expenses mostly associated with long-term care will spike near the end of life, leaving them penniless. This becomes even more concerning if there is a surviving spouse. New research from T. Rowe Price finds that 67% of retirees are concerned about the cost of long-term care and services (e.g., nursing home care, assisted care, and home health care), and 63% are concerned about out-of-pocket health care expenses.<sup>1</sup>

With that in mind, fear of these unknown costs could be having an effect on retiree spending patterns. Other research around retiree spending shows that many retirees cautiously spend their money.<sup>2</sup> In particular, those with higher assets tend to spend down at a slower rate.

This behavior is likely driven by uncertainty on many fronts, such as market risk, longevity risk, and the future cost of medical care and long-term care. It's more about fearing the storm of the century than a rainy day. That's not surprising given the median annual cost of a semiprivate room in a nursing home tops \$100,000, and the median assisted living charges now exceed \$57,000 a year.<sup>3</sup>

But could the fear be overblown? Not every retiree spends a year or more in a nursing home or assisted living facility. While some short-term stays in nursing homes and assisted living facilities are covered under Medicare, custodial care is not covered by Medicare and is generally responsible for high out-of-pocket costs.

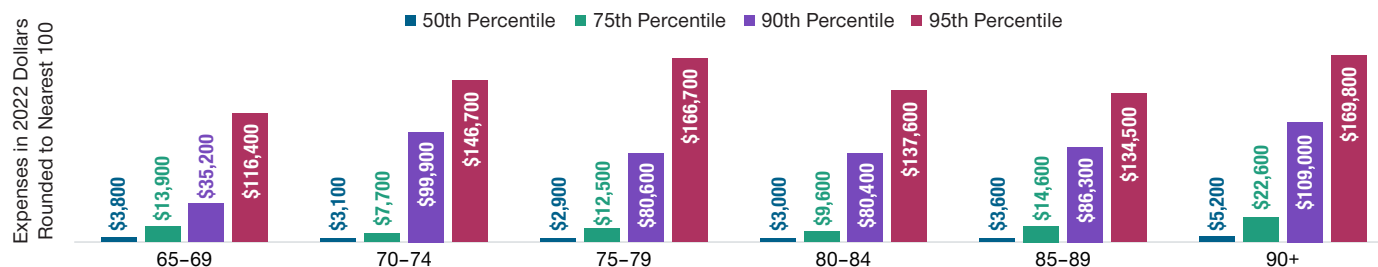
<sup>1</sup> T. Rowe Price Retirement Savings and Spending Study (2022). Respondents answered as a major or minor concern.

<sup>2</sup> Banerjee, Sudipto, "Asset Decumulation or Asset Preservation? What Guides Retirement Spending?" EBRI Issue Brief, no. 447 (Employee Benefit Research Institute, April 3, 2018).

<sup>3</sup> Genworth Cost of Care Survey (2023). <https://www.genworth.com/aging-and-you/finances/cost-of-care.html>

## Total Out-of-Pocket Health Care Expenses in the Last Two Years of Life

(Fig. 1) Amount spent over the last two years of life at age of death



Source: T. Rowe Price estimates from the Health and Retirement Study (HRS), 2012–2018. 2018 data is the most recent available.

So a natural question is: How much do people really pay out of pocket for their health care late in life?

In order to better understand what retirees can expect to pay for out-of-pocket expenses—including nursing home care—during the last two years of life, we examined data from the Social Security Administration-sponsored Health and Retirement Study.<sup>4</sup>

We excluded from our calculations:

- Health insurance premiums because those are predictable and not subject to sudden large increases late in life and
- Households that had already exhausted all their assets and were covered by Medicaid by the time they reached their last two years of life.

We focused on out-of-pocket costs late in life associated with:

- Hospital stays
- Nursing home stays, including other long-term care stays (excludes hospice)
- Doctor visits
- Dental services
- Outpatient surgery
- Prescription drugs

- Home health care
- Usage of special facilities (e.g., adult day care, physical therapy, social worker, transportation for elderly, etc.)
- A catchall “other” category

### How Large Are Health Care Expenses Late in Life?

A couple of things stand out when looking at the distribution of all out-of-pocket health care expenses late in life (see Figure 1).

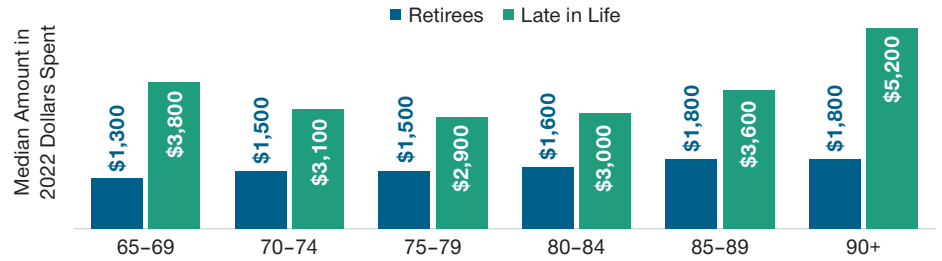
1. Late-in-life spending was higher for those who died at older ages. For example, the median out-of-pocket health care spending over the last two years of life for those who died between ages 65 and 69 was \$3,800 compared with \$5,200 for those who died when they were over 90 years old.
2. Health care spending was rightly skewed, which means that a small group of people had very high expenses. This was also the case in the last two years of life. Among those who died over the age of 90, half of them spent less than \$5,200, while 1 in 10 in that group spent more than \$109,000 and 1 in 20 spent more than \$169,800 over a two-year period.

Health care expenses are generally higher at older ages. But is there a spike

<sup>4</sup> Health and Retirement Study, public use data set. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI.

## Health Care Costs Increase Noticeably in the Last Two Years of Life

(Fig. 2) Out-of-pocket spending in final two years of life compared with retirees



Source: T. Rowe Price estimates from the HRS, 2012–2018. Retirees out-of-pocket spending is for a two-year period.

in these expenses in the last two years of someone's life? One way to answer this question is to compare these health care expenses with the expenses of surviving peers in the same age groups as shown in Figure 2.

Usually, there is a spike in out-of-pocket health care expenses at the end of life. For example, among those who died between ages 80 and 84, median out-of-pocket expenses were \$3,000 in their last two years. Their surviving peers spent a little over half of that (\$1,600) on average (median). So, on average, health care spending is higher in the last two years of life but should not be a panic-inducing difference.

### Nursing Home Stays and Related Expenses

Many believe that a prolonged nursing home stay will be financially catastrophic. But how likely is this outcome?

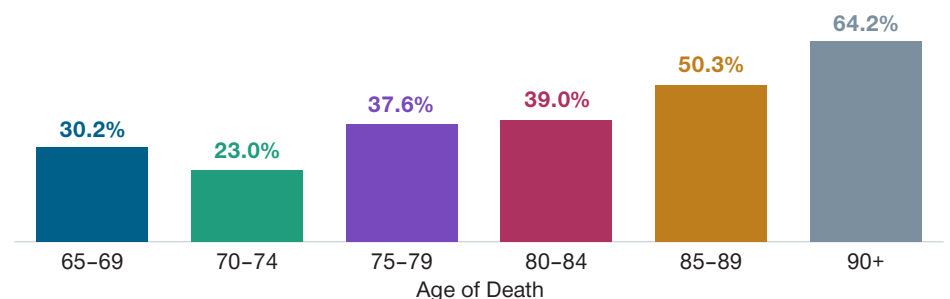
We looked at the chance of entering a nursing home or long-term care facility at the end of life, length of final nursing home stays, and the associated costs. Those fortunate enough to experience a long life are more likely to spend time in a nursing home or an assisted living facility.

Figure 3 shows the percentage of retirees who had a nursing home or long-term care stay (of any length) in the last two years of their lives. As expected, these numbers usually increase with the age of death. Only 23% of those who died between ages 70 and 74 reported such a stay compared with more than 64% of those who died after the age of 90.

Although entry into a long-term care facility is a key marker of health care needs late in life, the cost burden of such entries usually depends on the length of stay in these facilities. The data show that about 44% of final

## End-of-Life Long-Term Care Entries Increase With Age\*

(Fig. 3) Percentage of retirees by age



\*Excluding hospice care.

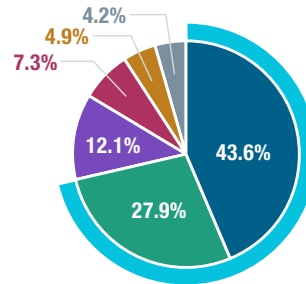
Source: T. Rowe Price estimates from the HRS, 2012–2018.

## Most Final Stays in Care Facilities Lasted Less Than Three Months

(Fig. 4) Duration of final nursing home or long-term care stays

### Final Nursing Home or Long-Term Care Stays

- Less Than 1 Month
- 1–3 Months
- 3–6 Months
- 6–12 Months
- 12–24 Months
- More Than 24 Months



Most final nursing home or long-term care stays were less than **three months**.

Source: T. Rowe Price estimates from the HRS, 2012–2018.

nursing home stays lasted less than a month, and over 70% of these stays lasted less than three months. On the other end of the spectrum, about 1 in 10 of final nursing home stays lasted more than a year.

How about the costs? Figure 5 shows that regardless of age of death, median nursing home expenses were zero. This means that half of retirees evaluated did not have any expenses associated with stays in nursing home and long-term care facilities.

As shown in Figure 3, the majority of people ended up in a nursing home or long-term care facility in their final years only after age 90. But even for those age groups, median out-of-pocket nursing home expenses remained zero because, in some cases, Medicare covers the nursing home costs for shorter stays.

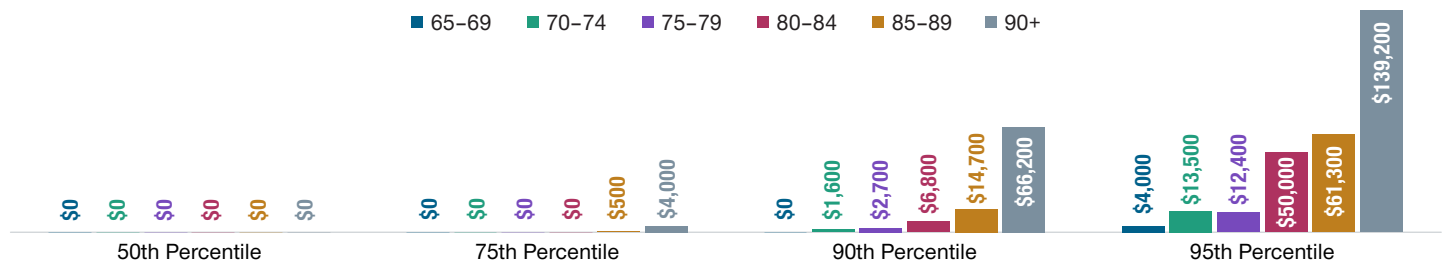
On the other hand, some people rack up very large nursing home bills. The top end of overall health care spending is mostly explained by nursing home costs. For example, for the oldest group in our sample, those who died over the age of 90, the 95th percentile of overall out-of-pocket health care expenses was \$169,800 (Figure 1), and the 95th percentile of nursing home expenses for this group was \$139,200 (Figure 5).

### Planning for Health Care Expenses Late in Life

While the numbers suggest it's unlikely that health care expenses incurred during the last two years of life will exhaust people's assets among the non-Medicaid population, the possibility can't be completely ruled out. Therefore, it's necessary to plan.

## Nursing Home or Long-Term Care Drove High Total Out-of-Pocket Expenses

(Fig. 5) Amount spent over the last two years of life at age of death



Source: T. Rowe Price estimates from the HRS, 2012–2018.

To do so, one must determine whether they have enough money to self-insure or if a better option is to purchase long-term care insurance (LTCI) or a “hybrid” product that can offer both long-term care coverage as well as a death benefit. An alternative consideration may be to purchase a product designed specifically to provide income in later years, such as a deferred income annuity.

Considerations for retirees include the following:

- 1. If purchasing insurance, evaluate the details.** LTCI policies become more expensive as people age. The other caveat to waiting is that health changes could affect eligibility. If looking to reduce the risk of catastrophic costs, consider a policy with a long elimination period and several years of coverage.
- 2. If choosing to self-insure, plan ahead.** Set aside an account earmarked for long-term health care expenses. If a health savings account (HSA) exists, money from that account should be exhausted first, as an HSA is not ideal to pass

along to beneficiaries. HSAs can pay for qualified medical expenses and LTCI premiums but not hybrid policy premiums. Once the form of coverage is determined, it's important to have conversations with family members about expectations for future health care.

- 3. Who will provide care?** Is there an available family member or spouse who can provide some degree of in-home care, or is that not possible or preferred? If not, nursing home and other long-term care facilities may be an option. Those are likely to be more expensive and may not be covered by Medicare. LTCI may be able to help offset those costs.
- 4. Asset preservation and the need for bequests.** This is an important consideration for couples if they are concerned that one's medical costs may not leave enough for a surviving spouse or partner. For those with higher assets, or those who don't want to burden their family with medical costs, some type of insurance may be a way to protect their wealth.

## ABOUT OUR STUDY

The HRS is a nationally representative survey of Americans ages 50 and older sponsored by the Social Security Administration. The HRS has been conducted every year starting in 1992 until their death. We used data from the HRS exit files that include exit interviews for the respondents, typically answered by the surviving spouse or children. Our sample includes all HRS participants who died between 2012 and 2018 and were between ages 65 and 99 at the time of death. All costs are adjusted for medical inflation and expressed in 2022 dollars. Finally, our study excludes those who were already covered by Medicaid when they were last observed before their death. Given the vast size of the survey, data is released on a lagged basis and different sets of data are available at varying times.

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