The Wealth Counselor

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Including Life Expectancy and Health Care Costs in Retirement Planning

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The collision between economics and demographics is increasing client concerns about running out of money in retirement.

Defined benefit plans are pretty much a thing of the past, and people are living longer. Clients need income that is sustainable and that they will not outlive. The cost of health care continues to rise more rapidly than inflation and is one of retirement's biggest expenses. Many boomer-aged clients, who are nearing retirement also have responsibilities to parents, children and other loved ones.

For families and caregivers, support for aging or impaired loved ones is a financial, physical and psychological drain. In addition, two major bear markets and historically low interest rates have taken a toll on many people's retirement savings. Many clients are understandably concerned about how they will make it through their retirement years.

For the well-informed and proactive advisor, however, this is an unprecedented opportunity. Estimates are that 8-10,000 boomers retire every day. Understanding the issues they face and bringing resources to the table will help you to help your clients, set your firm apart and grow your business.

In this issue of *The Wealth Counselor*, we will examine why the aging, healthcare and long-term care conversation is important to all: clients, attorneys, financial advisors and the other members of the advisory team.

The Baby Boomer Client
"Baby boomers" are people born between the end of World War II (1946) and the introduction of oral contraceptives (1964). They are now age 49 to 67. Because most of the clients of many advisors are between age 50 and 69, "boomer" issues and demographics are vitally important.

The Increase in Life Expectancy
Life expectancy has risen 60% in the last century. At age 65, an American male in average health has a 40% chance of living past age 85; for females, it is 53%. For a 65 year old married couple in average health, there is a 72% probability that one of them will live past age 85. For Americans more healthy than average, those chances are 50% for men, 62% for women and 81% for one or both of a married couple.

The Increase in Health Care Costs
Fidelity estimates that a couple age 65 retiring in 2012 would, on average, need $240,000 in excess of Medicare benefits to cover their lifetime medical expenses (based on a 17-year life expectancy for the husband and 20 years for the wife). Plus, that $240,000 does not include expenses such as over-the-counter medication, most dental services and long-term care. Importantly, Fidelity's 2012 estimate is 4% above its 2011 estimate and a 50% more than its 2002 estimate.[1]

Fidelity projected that the average female age 65 would live to age 85 versus 82 for the average male. Because of the usual age disparity between spouses, those longevity differences and divorce, the vast majority of women in the U.S. will die single.

The Physician Shortage and Concierge Medicine
Many doctors are not taking new Medicare patients. With Medicare and Medicaid cutting doctor reimbursements, we can expect the physician shortage to get worse.

In addition, more physicians are moving to concierge medicine, which offers a wider range of services and access for an annual fixed fee. Patient fees may be the doctor's sole source of income or he/she may accept insurance with fees supplementing income. Fees at the lower end may be $1200-$1800 per patient per year. High-end concierge medical services can cost $20,000-$30,000 a year for a family.

Planning Tip: Talk to your clients about Fidelity's estimate. Their health care expense budget in retirement may have to be larger than they think. Harris Interactive surveyed boomers and found they estimate long-term care costs at $78,923 per year. In contrast, Nationwide Financial Services projects that the annual cost of nursing home care in 2030, the year the last boomers are expected to retire, will reach $265,000.[2] Quality health care and access may be a matter of affordability or require sacrifice in some other aspect of retired life.

The Increase in Family Care: The Sandwich Generation
Many boomer-age clients find themselves with responsibilities both to their aging parents and their children. They may be single, widowed or divorced and also have personal, financial, career or health care challenges.

Defining the Family Care Challenge
One out of four families has a care-giving challenge and one in ten has an impaired adult or minor child. Thirty-four million Americans provide care for family members or friends 50 years of age or older, and almost 11 million care for someone between ages 18 and 49. Of these millions of care-takers, 57% care for a parent or parent-in-law; 21% care for a spouse; and 22% help siblings, grandparents, other relatives or friends.

Not surprisingly, 75% of caregivers are female. Forty-five percent live with the person being cared for and only 11% live more than two hours away. The average number of hours dedicated to care giving is 35.4 hours a week. That is equivalent to a full-time job *and is mostly unpaid.*

Two-thirds of those over 65 will need long-term care at home, adult day care, assisted living or care in a nursing home.

Planning Tip: Many people are surprised to learn that Medicare does not cover long-term care or assisted living costs. Also, 40% of those receiving long-term care are under 65, so this is not just a problem of aging. Clients of all ages need to think about long-term care long before retirement.

Planning Tip: Under the 1996 Health Insurance Portability and Accountability Act (HIPPA), doctors, hospitals and other health care providers are prohibited from disclosing information about a person's health or medical conditions without express permission. The relationship to the adult patient is irrelevant. Parents are not entitled to such information about their child who is over age 18 but still financially dependent on them, a spouse of many years, parent, grandparent, or dear friend. Unless the person seeking the information has been given a HIPPA authorization, health information cannot be legally disclosed.

Starting the Conversation
Clients are often confused about the "bigger picture" and don't know how to put it all together when it comes to solving their problems and planning ahead. They will likely approach an advisor with one issue that they have decided needs attention: creating or updating a will; rolling a retirement distribution into an IRA; naming a beneficiary; what to do with an inherited IRA. Experience, expertise and technology are all needed, but conversation with the client is key. A confident advisor knows how to ask the necessary questions that lead people into discussions that can be sensitive and are often difficult.

Planning Tip: One approach to help clients start visualizing the future is to project out ten years and then another ten years. "Considering your current age, what transitions or challenges, positive or negative, both planned and unplanned, might you encounter in the next ten years? In the next 20 years?" Ask the question, then let the client voice his/her concerns.

Consider using the CARE model:

C: What are the <u>Challenges, then, for each,</u>
A: What is the best <u>Alternative</u> to meet the challenge?
R: What <u>Resources</u> (financial, family, community) are available to power the best alternative?
E: What is the desired outcome? What does the client <u>Expect</u> or wish to <u>Experience</u>?

Start Planning with Where the Client Is
The financial advisor can help the client determine retirement financial needs: what the money will be needed for, how much will be needed and where it will come from. This should be done for several categories of income or resource need:

Survival Resources: This is money that is needed to make ends meet.

"What if" Resources: This is money to meet life's unexpected events, like needing long-term care. Typically this will be invested in a money market fund or be in liquid reserves and will not generate much income.

Freedom Resources: This is money to do things that bring enjoyment and fulfillment to life. It may be a vacation, an RV or condo purchase, or trips to Disneyland with the grandchildren.

Gift Resources: This is money to be given to people or causes the client cares about, like a college fund or charity. Families that tithe may have already included that money in their survival income.

Dream Resources: This is money for things the client has always dreamed of having or doing.

From these amounts, the advisor can project how much money will be needed. For example:

Annual Cash Flow Target	$84,000	($7,000 x 12)
Less Non-Portfolio Sources	-32,000	(Pension, Social Security, Working)
Gap to be filled from Portfolio	$52,000	
Principal Needed Using 4% Rule*	$1,300,000	($52,000/.04)

* *4% Rule:* Assuming 3% annual inflation and 20% taxes, a portfolio must earn 8.75% to provide 4% real net annual income. Formula: (4 + 3) / (1-.20) = 8.75%.

5% Rule: Assuming 3% annual inflation and 20% taxes, a portfolio must earn 10% to provide 5% real net annual income. Formula: (5 + 3) / (1-.20) = 10%

Many clients do not have the funds they will need to pay for the retirement they would like to have, especially with rising health care costs and family care responsibilities. The two recent bear markets have also made it difficult to achieve needed (and expected) returns. For example, the Ten-Year Treasury Note reached its peak of 15.84% on September 30, 1981, whereas in June 2013, that rate was 1.96%. The Prime Rate reached its high of 21.50% in December 1980. Currently, it is at 3.25%.

Planning Tip: Asset allocations may need to be shifted to help compensate as much as possible for today's lower fixed income yields.

How Advisors Can Help

Clients have problems and issues, and advisors need to have answers. You can become a resource that includes but goes beyond money in meeting life transition challenges. You can assemble and publicize an Expert Resource Team to assist in solving client health and care-giving challenges. For example:

Expert Resource Team (ERT): Start with your practice and core team of advisors. These might include attorneys with expertise in estate planning, family law and elder law, including veterans, Social Security and other government benefits (e.g., Medicaid) planning; insurance experts who are familiar with life, health, disability and Medicare supplement options; CPA; banker; trust officer; financial planner/advisor.

Planning Tip: Most clients have incomplete or outdated estate planning and health care documents. Review of these documents by an experienced attorney is essential to developing a plan that will work when it is needed. Also, life insurance policies will need to be examined as many were written when interest rates were higher. Beneficiary designations should also be reviewed and updated if needed.

Medical Expert Resource Team: Start with an Internal Medical Practice and specialists you may know (heart, cancer, urology, pediatrics); nutritionist (helpful to make sure an elderly person is eating well); allergist (some allergies can be fatal).

Caregiving Expert Resource Team: Members could include a geriatric care manager; nurse advocate; nursing home ombudsman; visiting nurses; hospice and palliative care; home help services; day care facilities; health coach, personal trainer; and transportation services provider (to get to a gym or doctor appointment).

Life Transitions Expert Resource Team: Aging-in-place specialists, certified home remodeling specialist (people want to stay in their homes); grief counselor, expert on working with widows; behavioral specialists; funeral director; spiritual advisors.

Planning Tip: Women are key. Eight out of ten husbands die first, and women are likely to be alone in their later years. They want holistic financial planning and common sense counsel. They want their attorney working with their financial advisor, and are comfortable with a team of advisors.

Conclusion

Rising health care costs, increasing longevity, family care responsibilities and bear markets all have an impact on clients as they plan for their retirement years. Many baby boomers still have children at home and will have heavy expenses (college education, weddings) before they can concentrate fully on their retirement. And many more have the added financial and emotional expense of caring for an aging parent or other family member. Advisors who have resources that will help clients solve their problems will prove to be invaluable to the client and to the advisory team.

1. "Fidelity® Estimates Couples Retiring in 2012 Will Need $240,000 To Pay Medical Expenses Throughout Retirement." May 9, 2012. www.fidelity.com/inside-fidelity/individual-investing/retiree-health-care-costs-2012

2. "Long-term care to cost more than baby boomers thought" June 28, 2013. The Columbus Dispatch. Society of Financial Services Professionals™ *News Brief* http://www.dispatch.com/content/stories/business/2013/06/24/long-term-care-to-cost-more-than-baby-boomers-thought.html