The Need for Longevity Planning

Steve Shorrock

By Steve Shorrock, ChFC, CLTC, FLMI

The 80 and over age group is growing five times faster than the overall population. For a couple aged 65 today, there is a 50% chance for one to live to age 92 and a 25% chance one will live to age 97.

Cardiovascular mortality has shown a remarkable decline primarily due to bypass surgery, better diagnostics, risk mitigating drugs and lifestyle changes (most notably the decline in smoking). Advances in medicine and improvements in health conditions overall, have led to people living longer. The possibility of spending 15, 20, 25 or more years in retirement should be realistically considered and planned for.

With a longer expected lifespan, what choices will your clients have to make and how can you assist them? I often suggest building a plan projecting life expectancy to age 100 that secures a quality retirement and:

- Provides for financial piece of mind.
- Retains independence and not be a burden on the family.
- Protects retirement assets from devastating medical costs.
- Provides multiple sources of income as to not outlive retirement assets.
- Quality of life for the surviving spouse.
- Inheritance for your children.

Studies show the majority of the 30 million pre-retirees are woefully unprepared for retirement, so much that it may change the essence of retirement. In this new retirement environment, one must have a clear understanding of the retirement risks, including:

- Entitlement programs such as Social Security and Medicare are on an unsustainable path. For the first time since the 1980's, Social Security will pay out more money in benefits than it collects in payroll taxes. Unless action is taken, Social Security could run out of money by 2037.
- Corporate reductions in retiree benefits, as many pension plans are quickly disappearing. More money must be saved in 401(k) plans, as corporations have shifted the return risk to their employees. The fact that more individuals than ever are using their 401(k) assets through loans and withdrawals to support their current quality of life is cause for concern.
- Low interest rates and an unstable stock market are causing many individuals to invest in money market funds providing minimal returns and often negative returns when you factor in inflation.
- Higher future taxes are projected as the Bush tax cuts are expected to expire and a growing federal deficit must be paid for.
- Living longer requires the retirement plan to cover more years than previous generations.

With longevity comes the associated cost that must be covered in the retirement plan, including:

- Long-Term Care - The chances of needing some form of long-term care is very high. Medicare pays for just up to 100 days of nursing home care. The annual cost in 2010 of a semi-private room in a Long Island nursing home is $141,438 and increasing annually. The national average for 10 hours of daily home care is $75,000. Regardless of the form of care, the costs of long-term care will quickly reduce most retirement assets.
- Health Care Expenses – The Employee Benefit Research Institute estimates that to have a 50% chance of affording health care in retirement, assuming a retirement at age 65 in 2019:
  - A man would need between $144,000 and $290,000 in savings.
  - A woman, a result on a longer life expectancy, would need between $210,000 and $406,000 in savings.
  - These estimates are for the projected savings needed to pay premiums for Medigap, Medicare Part B and Part D and out of pocket prescription drug expenses.
- Income Stream – With a possibility of reduced retirement assets to pay for long-term care costs, health care expenses, living expenses and the cost of living increases, predictable income streams from diversified sources are recommended.

In my next column, we will explore solutions to help your clients plan for their own longevity. FA

Steve Shorrock is Director of Planning 4 Longevity, which provides solutions that secure the impact of living longer, their associated costs and lifestyle implications. Steve is also President of LifeVentures Corp, which designs new life insurance products and develops marketing concepts for agents, and Director of Veris Settlement Partners, a life settlement firm that brokers seniors' unwanted or unneeded life insurance policies. You can reach him at his Northport, Long Island office at 631-239-6655 or steve@Planning4Longevity.com