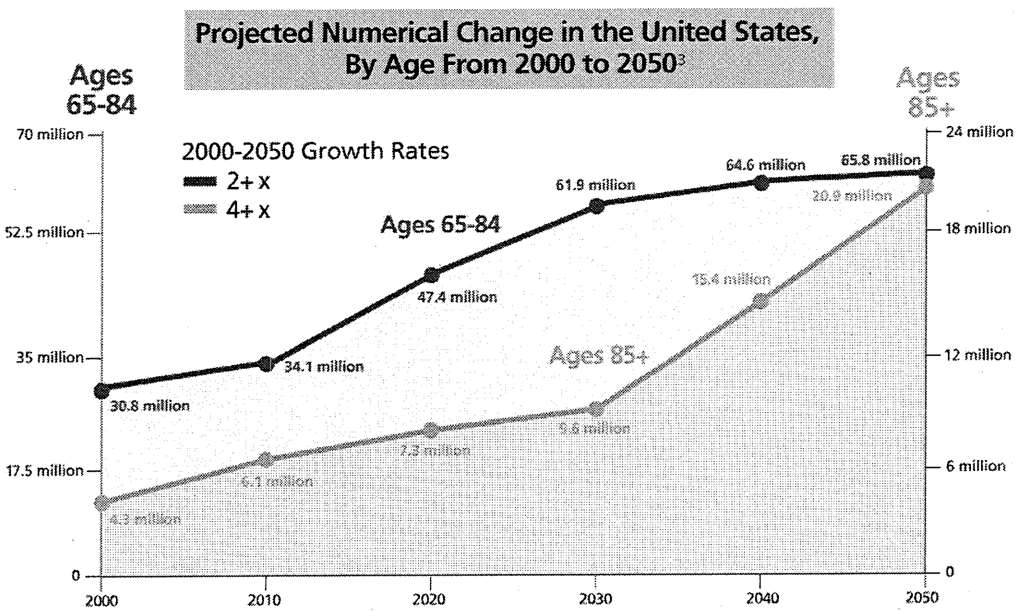
The Need for Longevity Planning

By Steve Shorrock, ChFC, CLTC, FLMI

The 80 and over age group is growing five times faster than the overall population.[1] 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.[2] The graph below shows the population increases to mid-century for ages 65-84 and 85+.



Advances in the field of medicine and improvements in health conditions overall have led to people living longer. For example, 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). 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.[4] In this new retirement environment, one must have a clear understanding of the retirement risks, including:

- Entitlement programs such as Social Security and Medicare. The foundation of a secure retirement, are facing strains from an aging population and a tough economy. For the first time since the 1980's, Social Security will pay out more money in benefits than it collects in payroll taxes. Additionally, for the first time in history, people age 65 and over are about to outnumber children under age five.[5] Unless action is taken, Social Security will be unable to pay retirees full benefits by 2037.[6]
- 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. Of concern is that more individuals than ever are using their 401(k) assets through loans and withdrawals to support current quality of life.[7]

- 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 a growing deficit that must be paid for. As income taxes increase and personal exemptions are phased out, the ability to defer income taxes becomes more valuable.
- Longevity, as living longer requires the retirement plan to cover more years than previous generations.

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

- Long-Term Care Costs – An overlooked threat to asset and income protection are the potential for long-term care costs. The chances of needing some form of long-term care is very high. Medicare pays for up to 100 days of nursing home care. The annual cost in 2010 of a semi-private room in a New York nursing home is $116,800 and increasing annually.[8] 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, as seen below:

The Impact of Long-Term Care on Retirement Savings[9]

Year	Assets at Start of Year	Income Needs	LTC Expense[10]	Investment Yield	Assets at End of Year
1	$500,000	$60,000	$75,000	$20,000	$385,000
2	$385,000	$61,800	$78,800	$15,400	$259,800
3	$259,800	$63,700	$82,700	$10,400	$123,800
4	$123,800	$65,600	$86,900	$5,000	($23,700)
5	($23,700)	$67,500	$91,200	($0)	($182,400)

Income Needs are the portion of household income needs that the assets had been relied upon to provide and assumes annual inflation of 3%. **LTC Expense** is based on a typical annual cost and is subject to 3% annual inflation. **Investment Yield** is assumed at 4% annually after taxes.

- 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.[11]
  - A woman, a result on a longer life expectancy, would need between $210,000 and $406,000 in savings.[12]
  - 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.

An insurance solution to protecting your retirement assets and income are needed. We suggest a larger asset allocation to insurance products protecting against longevity risks, including:

- **Income for Life-**Life insurance and annuities providing guaranteed income you cannot outlive

- **Health Care Strategy-**Life insurance and annuities with living benefits (for chronic, critical and terminal illness) and long-term care insurance
- **Market Growth-**Indexed life insurance and annuities with upside market potential and interest rate floors

"We've seen how a stock market crash can devastate retirement plans," wrote *Chicago Sun-Times* financial columnist Terry Savage, "But the greatest risk is not the longevity of this bear market, or even another bear market. It's the associated costs of living longer and its healthcare and lifestyle implications." [13]

1. Steven Reinberg, "Hypertension Undertreated in Elderly," *Healthday News,* July 27, 2005. **2.** Society of Actuaries, "Annuity Mortality Table," 2000. **3.** U.S. Census Bureau, 2004, "U.S. Interim Projections by Age, Sex, Race and Hispanic Origin." Internet Release Date: March 18, 2004. **4.** LIMRA. **5.** *The New York Times*, "The Financial Bomb of Longer Lives," Natasha Singer, October 17, 2010. **6.** *The Washington Post,* "Alarm Sounded on Social Security," Amy Goldstein, May 13, 2009. **7.** CNNMoney.com, "401(k) Withdrawals Spike," Aaron Smith, August 20, 2010. **8.** Genworth 2010 Cost of Care Survey. **9.** Couple with $500,000 of assets and one needs care. **10.** National average of 10 hours of daily care. **11.** Employee Benefit Research Institute, 2010. **12.** Employee Benefit Research Institute, 2010. **13.** Terry Savage, "The Greatest Risk of All."

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