

## **Life Expectancy and Health Care Planning**

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The aging, healthcare and special needs conversation is vitally important to you and your family.

Except for government employees and Social Security, retirement plans that pay benefits until death are pretty much a thing of the past. Plus, people today are living longer. Yet retirees' need for income that is sustainable and that they will not outlive is unchanged. Adding to the problem, the cost of health care continues to rise more rapidly than inflation and is now one of retirement's biggest expenses.

Increases in longevity and starting families later means that many people who are nearing retirement age today also have responsibilities to their parents and their children. In addition, two major bear markets and historically low interest rates have taken a toll on many people's retirement savings.

For all these reasons, many people today are understandably concerned about how they will make it through their retirement years.

In this issue of *The Wealth Advisor*, we will look at how demographics and economics are creating a longevity risk for retirees, why longevity risk is more often primarily a woman's issue, and the generational issues.

### **Demographics, Economics and the Longevity Risk**

In financial planning, "longevity risk" in retirement planning is the risk of outliving a plan to spread resource use over anticipated remaining life. The primary wild cards that create longevity risk in retirement planning are the retiree's future health care costs and longevity.

#### *The Baby Boomers*

The U.S. birth rates jumped up in 1946 (the year after the veterans returned from World War II) and did not drop until the use of oral contraceptives became widespread in 1964. Those born in this period are referred to as the "baby boomers." The baby boomers are now age 49 to 67. Some 8-10,000 of them retire every day.

#### *The Increase in Life Expectancy*

Life expectancy has risen 60% in the last century. At age 65, an American male in reasonable health has a 50% chance of living to 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.

#### *The Increase in Health Care Costs*

Fidelity estimated that a couple age 65 retiring in 2013 would, on average, have \$220,000 in medical expenses in retirement (based on a 17-year life expectancy for the husband and 20 years for the wife). Plus, that \$220,000 does not include the expense of over-the-counter medication, most dental services and long-term care.<sup>[i]</sup>

#### *It's More Often a Woman's Issue*

Fidelity also projects that a female age 65 has a 50/50 chance of living to age 88 versus age 85 for a male.<sup>[ii]</sup> Because of the usual age difference between spouses, those longevity differences and higher rates of divorce, the vast majority of women in the U.S. will die single. Without a spouse, the probability of needing third party care increases. That could mean higher costs for care or a burden on adult children.

**Planning Tip:** Your health care expense budget in retirement may have to be larger than you think. Harris Interactive surveyed baby boomers and found they estimated 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.<sup>[iii]</sup>

#### **The Increase in Family Care: The Sandwich Generation**

Many boomers have responsibilities both to their aging parents and their adult children in addition to their own personal, financial, career or health care challenges.

One out of four families has a care-giving challenge. Forty-five million Americans provide care for one or more family members or friends. The average number of hours dedicated to caregiving is 35.4 hours a week. That is almost equivalent to a full-time job *and is mostly unpaid*. Caregiving is mostly a woman's issue - 75% of non-professional caregivers are women.

Today you may be the caregiver. Tomorrow you may be receiving the care. Two-thirds of those over 65 will eventually need long-term care at home or in a nursing home, adult day care, or assisted living support.

**Planning Tip:** Contrary to popular belief, 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. People of all ages need to think about long-term care long before retirement.

#### **Life Transitions: Starting the Family Care Conversation**

How do you begin the aging, healthcare and special needs planning that will empower you to have that conversation with your family? One approach that can help you start visualizing the future is to look at it ten years at a time. Ask yourself, "Considering my current age, what transitions or challenges, positive or negative, both planned and unplanned, might I encounter in the next ten years? In the next 20 years?"

Consider using the CARE model:

C: What are the Challenges I face? Then, for each one:

A: What is the best Alternative to meet that challenge?

R: What Resources (financial, family, community) are available to power the best alternative?

E: What is the desired outcome? What do you wish to Experience?

#### **Start Planning with Where You Are**

Your financial advisor can help you 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 you care about, like a college fund or charity. (If you tithe, that may already be included in Survival income.)

Dream Resources: This is money for things you have always dreamed of having or doing.

Your financial advisor can help you project how much of a retirement nest egg will be needed as Survival Resources. Next, a retirement fund for “What If” Resources needs to be set aside. Whatever is left over can be used as Freedom, Gift and Dream Resources or to fund a legacy.

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

### **The Family Care Solutions Teams**

Nobody is an expert at everything in today’s complicated environment. That’s why planning is best done using a team approach. Two teams you may want to have help you are:

Advisor Expert Resource Team: Consider putting together an Expert Resource Team of advisors to help with upcoming family transitions. Advisors 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.

Many people have incomplete or outdated estate planning and health care documents. Regular review of these documents by an experienced attorney is essential to having a plan that will work when it is needed. Life insurance has also been affected by the bear markets and low interest rates. All of your policies should be reviewed by a life insurance expert. Also, beneficiary designations should also be reviewed and updated if needed.

Medical Expert Resource Team: Start with an Internal Medicine or Family Practice Doctor and include any specialists you may see (heart, cancer, gynecology, urology). Consider including a nutritionist (helpful to make sure an elderly person is eating well) and an allergist (some allergies can be fatal).

Later, as your needs change, you may need other teams, such as:

Caregiving Expert Resource Team: Members of this team 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 (most people want to stay in their homes); grief counselor; expert on working with widows; behavioral specialists; funeral director; spiritual advisors.

### **Conclusion**

The aging, healthcare and special needs conversation is vitally important to you and your family. Have you talked in depth with your advisors regarding your personal concerns about your spouse, family, aging parents or other loved ones? Taking the time to plan and put resources in place now can help prepare your family for future life transitions and give them

peace of mind in difficult times.

[ii] <https://www.fidelity.com/viewpoints/retirees-medical-expenses>

[iii] <https://www.fidelity.com/learning-center/retirement/common-retirement-expenses>

[iiii] "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>

### TEST YOUR KNOWLEDGE

1. The aging, healthcare and special needs conversation is vitally important to you and your family. T F
2. Many people who are nearing retirement also have responsibilities to their parents, children and other loved ones. T F
3. Two recent bear markets and historically low interest rates have taken a toll on many people's retirement savings. T F
4. The cost of health care continues to rise more rapidly than inflation and is one of retirement's biggest expenses. T F
5. The primary wild cards in retirement planning are future health care costs and longevity, which has risen 60% in the last century. T F
6. Because of the typical age difference between spouses, longer longevity for Women, and divorce, the vast majority of women in the U.S. will die single. This could mean higher costs for care or a burden on their adult children. T F
7. One out of ten families has a care-giving challenge and one in ten has an impaired adult or minor child. T F
8. Most caregivers are women, and the average caregiver devotes more than 35 hours per week with no pay. T F
9. Many people are surprised to learn that Medicare does not cover long-term care or assisted living costs. T F
10. Taking the time now to plan and put resources in place can help prepare your family for future life transitions and give them peace of mind in difficult times. T F

Answers: All of the above are true.

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provide better service to your clients. Please feel free to contact me if you have any questions about this or any matters relating to estate or wealth planning

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