Game Changers / Planning to infinity

InvestmentNews

By **Elizabeth MacBride** — August 22, 2016

By many measures, Stanley and June Blum have an ideal retirement. He is a retired shoe-industry executive who paints and writes poetry. She is a psychologist who still works part-time. They split their time between an apartment in New York City and a house in the country, about a two-hour drive away, in Rhinebeck, N.Y.

Not bad for a couple married for more than 75 years and approaching the second century of life. Stanley is 97 and June is 96.

But what is perhaps most remarkable about the Blums and others like them is that, well, they are not very remarkable — or at least not as remarkable as they used to be. As of 2014, there were 72,197 Americans 100 years old or older, a 44% increase since 2000, according to the Centers for Disease Control and Prevention.

This is probably just the beginning. By 2050, there are expected to be a million centenarians in the United States. And even those who don't reach 100 have a good chance of living well into their 90s.

That is welcome news, of course. But the Blums are an example of the challenge as well as the promise of longevity. That's because the aging couple are running out of money.

How do financial advisers make sure the same thing doesn't happen to their clients? How do they make sure they are saving enough to enjoy the retirement they have envisioned, and that their nest egg will provide for them not only in their 70s and 80s, but into their 90s and beyond?

Both in their 90s, June and Stanley Blum have been married for more than 75 years. They are now facing the financial pressures that come with having lived long lives.

Working beyond the normal retirement age of 66 might be an option for those who haven't saved enough, but studies have shown that people overestimate how long they are they are willing – or able – to stay in the workforce.

And in an age of ever-rising medical costs, how do advisers make sure their clients have planned accordingly for "old age" **illnesses such as heart disease, cancer and dementia** that many of them are sure to face? If they do need long-term care, will their clients be able to afford to live their final days in a nursing home or assisted-living facility without going broke?

The answer is more complicated than simply looking at actuarial tables and advising clients to save more, though most people need to.

Harold Evensky, chairman of the planning firm Evensky & Katz, says the industry so far is not grappling with the issue of aging in a widespread, thoughtful way, beginning with making individual estimates of longevity based on health and family history.

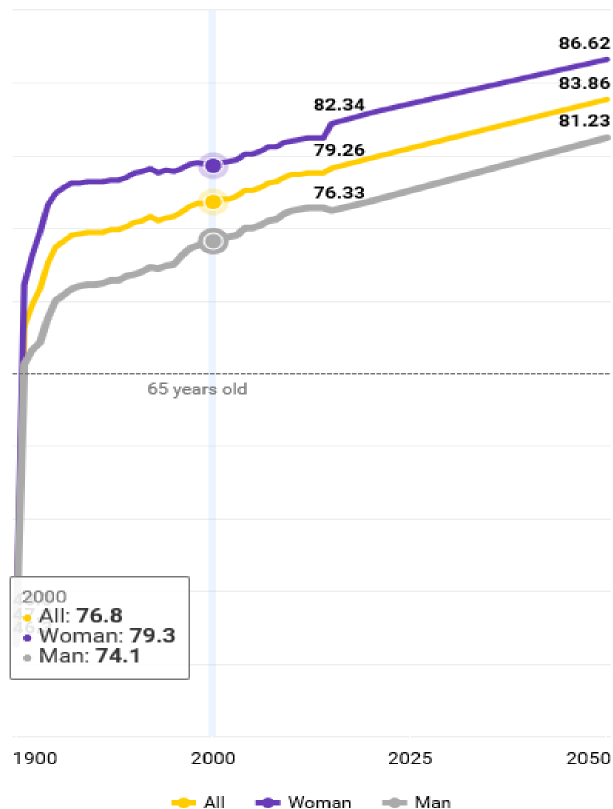
And he says he worries for the future. "I think there are going to be an awful lot of people whose lifestyle is going to be dramatically impacted," he said.

ALL ABOUT AGING

InvestmentNews surveyed 348 advisers about how their firms are adapting to longer life spans and longer retirements. The survey shows an industry that is changing — but perhaps not as quickly or aggressively as it should.

For example, the survey showed that in preparing retirement plans, advisers used an average lifespan of 91 for men and 94 for women. That's reasonable based on life insurance tables. Currently, the average life expectancy once someone reaches 65 is 84 for men and 87 for women, according to the CDC. If they reach 75, men can expect to live, on average, until 86 and women 88.

U.S. life expectancy is on the rise, 1900-2050



Source: Centers for Disease Control and Prevention

But the future could be much longer than most people think. It's hard to tell when the next boost will come, or from where, or which group of people it will affect most, but most researchers think there will be one. It may well push average life expectancy for people at 75 into the low 90s, and increase again the number of people living past 100.

Life expectancies have grown in spurts. In the early part of the 20th century they grew because of improvements in infrastructure, such as sewage systems, and a decline in communicable diseases. In the second half of the 20th century, life expectancies grew, especially for people with education and money, because of antibiotics, improvements in surgical interventions and better prevention and treatment of cardiovascular disease, said Dr. Thomas Perls, director of the New England Centenarian Study.

The next advance could be from earlier detection of cancer, or from leaps in behavioral science that teach people healthier habits, said Daniel Kraft, Medicine and Neuroscience chair at Singularity University.

"Technology is just beginning to impact health care. Better detection, and tests that people don't mind getting, may change things. Smart phones will increasingly make things more nuanced and personal," Dr. Kraft said.

These are mainstream predictions. Then there are people like Osman Kibar, a Turkish-born billionaire whose biotech company claims it has invented drugs that could reverse aging. If an advance like that appears in the market, all bets are off, and advisers may find themselves planning to infinity.

Here are some ways **advisers are wrestling with the challenges of longevity**, trying to make sure their clients are better prepared for a longer life.

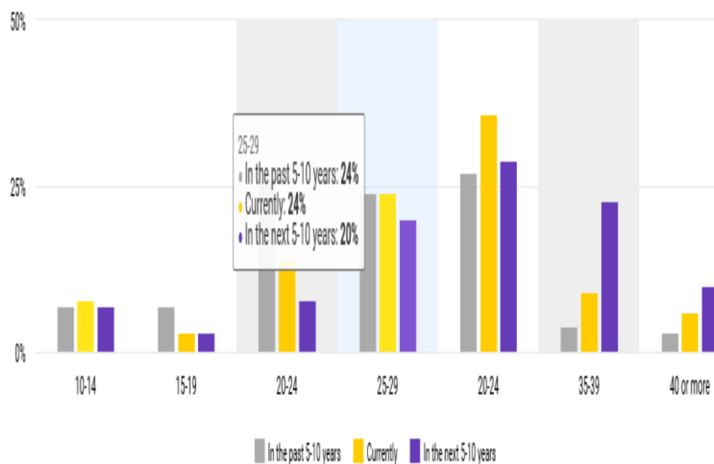
SAVING TILL IT HURTS

The *InvestmentNews* survey shows that advisers are getting the message that their clients are living longer. As a result, they are urging their clients to save more.

Five to 10 years ago, 51% of advisers made retirement plans assuming their clients would live to between 85 and 94, while 27% planned for lifespans of 95-99. Only 4% planned that their clients would live to between 95 and 99, and 3% beyond 100.

In the next five to 10 years, however, they will be stretching out those timelines. Only 27% of advisers will be planning on clients living to between 85 and 94; 30% will be anticipating lifespans of 95-99 and 23% will be expecting clients to live to between 95 and 99. A full 10% will be planning on their clients living beyond 100.

Number of years of retirement advisers plan for their clients



What advisers think

Comments from respondents in *InvestmentNews'* longevity survey

"I have a client who retired in the early 90's, planning to live on a 6% distribution from retirement assets (which at the time was not considered unreasonable). She is now in her 80s and looking to reduce her income needs because yields have been reduced so far that she is spending principal. She is now too old to purchase an income annuity, but according to her doctor and what her family history suggests, she could be living off her assets for many years to come."

"I am currently dealing with two clients showing signs of dementia. This present challenges, not only to these families but also the adviser. In times like this advisers must be on their guard. However, it is also a tremendous opportunity to cement relationships with the families of the loved one whose mental health is in question."

"I have personally experienced elderly clients (over age 85) having memory problems. They forget how much money they have or how much they should spend. In one case, the client forgot who I was."

"Children who are counting on inheritances are putting pressure on parents to begin gifting some of their inheritance early."

"Our firm has had many clients who have ended up in a nursing home, paying astronomical costs. Their remaining assets quickly dwindle and leave little to nothing as a legacy to their families."

"Good news - clients are living longer. Bad news - clients are living longer. I find that many of the new prospects that I am meeting have completely failed to properly save for their retirement. In short, I find that there are huge segments of the population that have assumed that they can continue to work and earn an income much longer than is reasonable."

"I have one male client who has had cancer, a broken hip, and is now at the beginning of dementia. He's on his way to 89 and still rolling! Now resides in a senior facility. Years ago all money was placed in American Funds IFA, for return and diversification simplicity. He's quite pleased and so am I. Doesn't always have to be complicated."

"So far, we have not had any clients "live too long" and run out of resources. However, we are now experiencing having clients in need of long-term care. Thankfully, they have long-term care insurance, but that is not the only issue; the emotions of dealing with long-term care needs have been eye-opening and heart-rending, too. Planning for it makes a real difference."

"Several elderly clients who have anticipated wealth transfer from parents have ended up waiting longer than they had expected, as their own parents lived longer."

"I have a couple of clients who have chosen to retire a little earlier than originally planned (63 instead of 65). This has reduced, by two years, their 401k contributions = ~$36K, and it has added two years to their retirement income needs. I think the

'old' way of thinking -- retire at 62-65 and live happily ever after-- needs to shift to retiring at 67-70, maximize retirement savings, and delay those Social Security benefits as long as possible."

Source: InvestmentNews Research

Consumers, on the other hand, rarely plan with those advanced ages in mind. Survey after survey shows that people are not saving enough money for even the current life expectancy.

In the *InvestmentNews* survey, 55% of advisers listed "not saving enough" as the No. 1 threat to their client's retirement security, edging out "outliving retirement savings," (35%) and "spending too much in retirement" (30%).

Perhaps, advisers should tell them about the Blums. Neither thought they would live this long, and now they are running out of money.

To maintain their current lifestyle, they need $5,000 to $6,000 a month, an amount not being met by their Social Security benefits and Ms. Blum's income. They have already tapped the home equity in their country house through a reverse mortgage, but they have not been able to find a bank that will give them a reverse mortgage on their apartment because it's a co-op.

"We could have saved more," Mrs. Blum said. "But I always think things will work out."

Unfortunately, hoping things will work out is not advice that financial advisers can give their clients. That's why some advisers are increasing the amount they advise their clients to save.

While 10% of income used to be the standard advice, some advisers now suggest 15%. "It buys you some flexibility," said Bob Litle, senior vice president of Fidelity Institutional Asset Management.

Advisers find themselves having to work harder to communicate with clients about a longer future filled with an increasing number of variables.

"I think there are going to be an awful lot of people whose lifestyle is going to be dramatically impacted." -- Harold Evensky, Chairman, Evensky & Katz

One of the keys is reducing the amount of uncertainty, which can cause people to give up on trying to save enough at all. Because they are convinced the problem is insoluble, they don't even try.

Mr. Litle said many advisers have found that segregating assets into three piles — a conservative stack that includes enough to cover two-three years, a second stack invested in a medium-risk investments that is large enough to last for three-10 years and a third bucket of investments invested for the long-term — helps anxious clients cope with the uncertainty.

Rick Kagawa, an Orange County, Calif.-based adviser and insurance broker, says he encourages the Japanese practice of living well under your means and saving until it hurts: 30% of income, which he practices himself. "It can never be too much, because of the uncertainty of the market and uncertainty of age," said Mr. Kagawa,

He cited the case of one of his middle-class clients, an electrician in the Army, who made the deliberate choice to live on only the returns of his savings for the first 15 years of his retirement. He and his wife, now about 80, have about $500,000 in their retirement account, but still live mostly on Social Security.

"They will never run out of money," Mr. Kagawa said.

Working longer can be a good strategy, especially for clients who may not have saved enough for retirement. In the *InvestmentNews survey*, 65% of advisers said they are telling clients to delay claiming Social Security benefits.

INCREASING SOCIAL SECURITY PAYOUTS

A person who delays taking Social Security benefits by eight years, from the minimum of age 62 to the maximum of 70, increases payouts by 76%. A worker who delays retirement also keeps adding to his or her 401(k) or individual retirement account, and doesn't start drawing down any of those savings.

A few years ago, Charles D. Ellis, author of **the book "Falling Short,"** about the retirement crisis, estimated the typical American worker could double his or her retirement savings by following that strategy, from only a little over $100,000 to almost $250,000.

Planning to work longer is a great idea, if clients can actually do it and save money while they are working. Many workers plan to do so: 18% of people over the age of 50 say they will never retire, according to an AARP survey.

But 50% of retirees leave the workforce earlier than they planned, according to the Employee Benefits Research Institute. Reasons include poor health or layoffs.

And some people, unfortunately, use the idea of working longer or forever as a way to avoid saving. Jacquelyn B. James, co-director of the Boston College Center on Aging & Work, said that the belief on the part of some people that they can work forever inhibits saving for retirement. "But people often cannot keep working," she said. "People don't anticipate the way jobs are changing. They don't anticipate losing jobs."

SOARING HEALTH CARE COSTS

Nearly 60% of advisers in the *InvestmentNews survey* say they plan for bigger client health care budgets than in the past as a result of longer lifespans. Yet, only 29% consider unexpected medical expenses to be the biggest risk to their clients' retirement.

The contradiction can likely be attributed to the erratic **nature of health care expenses**: expensive for everyone, catastrophic for some, with no way of predicting which for whom.

A 55-year-old couple planning to retire at age 65 can expect total lifetime health care costs to be $463,849, including premiums and out-of-pocket costs, according to the Retirement Health Care Cost Data Report issued by HealthView Services, a retirement health care planning firm.

$464K

Total lifetime health care costs of a 55-year-old couple planning to retire as 65

83%

Rate hike federal government just approved on its long-term care policies

$90.5K

Annual cost of a private room in a nursing home

But it's difficult for advisers to steer their clients through the risks of a health problem that's worse than average.

Some 42% of people who live to the age of 70 will spend time in a nursing home before they die, according to a 1997 study by researchers in New

York. The study found people should expect to spend about one year in a nursing home.

Long-term care cost per year:

Nursing private home: **$90,520**

Nursing semi-private home: **$81,030**

Assisted living community: **$42,600**

Home health aide: **$21,840**

Homemaker: **$20,800**

Adult day service: **$18,200**

Source: MetLife Mature Market Institute

The problem arises if you aren't average. What if you need to spend five years or more in a nursing home, which according to the MetLife Mature Market Institute can cost $80,000 to $90,000 a year?

Long-term care insurance is expensive, with premiums that have been rising. The federal government just approved an 83% rate hike on its policies, sold through John Hancock Life and Health Insurance Co., for instance — and insurers have been abandoning the market.

The responses in *InvestmentNews'* survey reveal advisers' struggles. “The biggest objection clients have is when we discuss the reality of long term care,” writes one. “Clients have the 'Oh, it won't happen to me'” attitude.

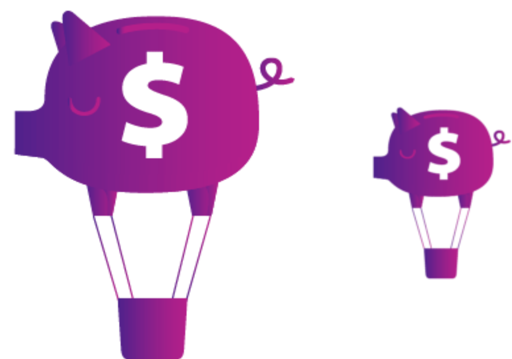
But all isn't lost. One bright spot of the longevity revolution is that, so far, evidence suggests the same science that extends life could compress disability, says Dr. Perls, of the Centenarian study. Seventh-Day Adventists, who enjoy long lifespans, have been the subject of a long-running study on their health habits. “They don't smoke or drink, they are vegetarian and they tend not to be obese.” Strong family and community ties also help reduce stress.

If, as he and other researchers suspect, the next big jump in longevity comes from better health behaviors that minimize the end-of-life-disability, the fears of most advisers that their clients will be crushed by health costs could be overblown.

RETHINKING WITHDRAWAL STRATEGIES

Some advisers are looking to changes in withdrawal strategies to help their clients' money last longer. In the *InvestmentNews* survey, 54% of advisers said they are recommending lower withdrawal rates to their clients as a way of dealing with longer lifespans.

“Yesterday's withdrawal strategies don't work as well for today's retirees,” said Scott Hanson of Hanson McLain Independent Investment Advice, in an email. “Many people prefer to spend in chunks, such as paying for a long trip or for a bathroom remodel, yet most withdrawal strategies are simply monthly allotments of savings. What is needed today are robust withdrawal strategies that adjust to the seasonality of one's life.”



“Yesterday's withdrawal strategies don't work as well for today's retirees.” --Scott Hanson, Hanson McLain Independent Investment Advice

Annuities can also be a kind of formalized withdrawal strategy. A growing number of retirement plans offer annuity products as an option to protect people from living longer than expected and outliving their savings. Clients and advisers can find them in the individual market, too.

Clients typically purchase longevity annuities in their 50s and 60s for payouts that don't begin until age 85.

With a longevity annuity, if you die before you start getting payouts, you lose your principal. There's a greater than 50% chance that you will die before getting any payments from the annuity.

But advisers see them as one part of a strategy, not as a panacea. Because annuity payouts are determined in part by interest rates, they may not pay out enough when interest rates are low.

But in a sense, a longevity annuity serves the purpose of insurance: It's not designed to earn returns, but rather to protect owners from a catastrophic risk. A Brookings Institute report found they were a cheaper option than immediate annuities, and they are less complicated than managing withdrawals from a number of different retirement accounts.

CONFLICT OVER INHERITANCES

Advisers may need to grapple with the question of inheritance. Cash inheritances, which used to be seen as a possibility even a few decades ago, are now off the table given that people need more money in retirement.

Some children of clients may expect an inheritance in the form of the family home. But as reverse mortgages and home equity loans become more popular, especially to finance unexpected health care costs, those real estate windfalls are likely to decline in number.

Karin Davis, loan officer with Evolve Bank & Trust, says she can see the conflict in some of the families she serves, where children are putting subtle — or not so subtle — pressure on their parents.

She recalls a mother-daughter in Queens, N.Y., where an overbearing daughter was trying to pressure her mother, Mary, into not taking out a reverse mortgage. When the younger women left the room, her mother looked at the adviser and said, "Mary's going to do what's good for Mary,'" Ms. Davis recalls.

Growing old together: June and Stanley Blum talk about living into their 90s.

HUMAN ADVISERS VS. ALGORITHMS

The longevity revolution is already reshaping financial advice, as forward-thinking advisers adapt. In the *InvestmentNews* survey, 35% say the biggest impact has been the time spent finding younger clients or retaining aging clients, while 28% say it is the lowered profitability as revenue from aging clients decreases.

But increasing lifespans and the more complicated financial planning that comes along are an advantage for human advisers over algorithms.

"There's more diversity, more variables, and it becomes less formulaic," says Fidelity's Mr. Litle. "We think it's good news for advisers, because of the human-based adaptive work they do. A retirement calculator can't uncover retirees that have teen-age kids, or people who may be supplementing the income of adult children, or the spouses from multiple marriages."

In short, humans are better at handling the variables of old age, including all the emotional uncertainties. The question of how aging clients live with those uncertainties may be the central one that advisers need to deal with.

What advisers are doing differently as their clients are living longer

Defer Social Security benefits – 69%

Plan for a bigger health care budget – 59%

Recommend lower withdrawal rates – 54%

More retirement-focused products – 45%

Advocate more portfolio risk – 44%

Put clients on a stricter budget – 22%

Advocate less portfolio risk – 9%

My retirement advice has not changed – 8%

Source: InvestmentNews Research

Understanding the perspective of people like the Blums is also important. As they are approaching 100, they have a different sense of what matters.

They're not as rational or as worried about the future as they were when they were younger. They are freer, and Mr. Blum emphasizes, still living fulfilling lives.

"I object to the word aging," Mr. Blum says. "I would change the emphasis from aging to growing. We are part of nature, and nature's job is to grow things until they die."

In a worst-case scenario, they can sell their co-op, and find a new place to live. But they are not even thinking of doing that.

"I have very little time left," Mrs. Blum says. "I'm going to spend that time packing? We are kids of the Depression, as happy eating a frankfurter as roast beef. We'll be OK no matter what happens."

Elizabeth MacBride is a freelance writer.