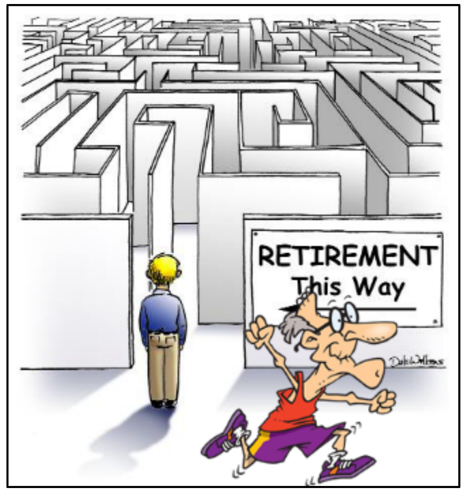
Managing the challenge of longevity

Navigating the Retirement Maze



"If you live to be one hundred, you've got it made. Very few people die past that age."

– George Burns, comedian (1896 – 1996)

When I was a young adult, my father used to excuse his occasional lifestyle excesses by proclaiming: "I'd rather live to 60 than exist until 80." Not surprisingly, I ceased hearing that line after he reached the age of 60. Now that he is well into his 80s, and nowhere near death's door, I sometimes wonder what his current mantra is. Maybe: "100 or bust"?

Willard Scott began wishing "happy birthday" to new centenarians on the Today Show in 1983, when reaching that milestone was considered a notable occurrence. Thirty years later, that age group has nearly doubled in size. More to the point, a 65-year old couple today has about a 50:50 chance that at least one of them will still be around at age 90, and 1-in-5 odds of one living to 95.

I half-seriously tell my clients that if they're lucky, they'll expire at age 75. In response to their quizzical and sometimes annoyed stare, I say that it's cheaper being dead. Living to an old age is what has the high associated expenses. Morbid humor aside, what if you wind up being blessed – or cursed, as the case may be – with a very long life? Have you considered the financial implications of living well into your 90s? If not, better start planning now, or your children may eventually be playing the game of "Who deals with Mom (or Dad) this month?"

Health care costs are a killer

According to a study by Fidelity Investments Benefit Consulting group, an average 65-year old couple retiring this year can expect health care costs of $245,000 over the remainder of their lives, an increase of 29 percent in just ten years. This assumes that they have Medicare, but no employer-provided retiree health care. Planning to work longer to hang onto those employer benefits? Many plan to, but fewer actually do. In Wells Fargo's most recent annual retirement study, over half of the respondents reported retiring earlier than they had planned, due either to health issues or employer decisions.

Many near-retirees mistakenly assume that Medicare will cover their long term care needs. In fact, Medicare will cover only up to 100 days of nursing home care, and only for medical conditions that require hospitalization. It provides no coverage for home care, which is becoming the predominant form of long term care.

Ways to prepare for retirement health care costs include health savings accounts (HSAs), long term care insurance, and looking for the best Medigap and Medicare Advantage (Medicare Part C) options. When planning your retirement budget, don't forget to factor in health care costs, which are likely to escalate with your age and with medical cost inflation, currently growing at 5 percent annually.

Annuities: Pay now, collect later

I've written past columns about the pros and cons of immediate annuities, where you pay the insurance company an amount up front, and they provide you with monthly income for life. Their biggest downside these days is that the low interest environment has significantly reduced the guaranteed payouts. Lately, a new type of annuity has become available which could be an appropriate way for many to finance their potential longevity. Known as deferred income annuities (DIAs), they are identical to immediate annuities except that you delay collecting monthly checks for a fixed number of years. If you are inclined to shift most of your retirement assets into income producing investments like bonds and CDs during retirement, this could be a better alternative.

DIAs have two advantages over immediate annuities. First, the insurance company has more flexibility in its investment options over that delay time span, potentially generating better investment returns. Second, the payout will be considerably higher due to those in your annuity pool who didn't live long enough to reach their payout age. Thus, if you have anxieties about outliving your finances, consider a DIA at age 60 that will start paying you at age 80. Concerned that you won't make it to the payout age? Remember, this is insurance in the event that you make it close to the centenarian club. If you don't live that long, your expenses going forward will be considerably lower.

The federal government has even blessed this form of insurance by allowing its use in retirement accounts. Called a qualified longevity annuity contract, or QLAC, individuals can invest the lesser of $125,000 or 25 percent of their IRA balance in these annuities, and not be held to the typical required minimum distribution (RMD) for the annuity.

With apologies to the Bee Gees…

..."stayin' alive" can be a financial challenge in your later years. Better to prepare for it now rather than later. So look into insuring for future health care costs, consider DIAs as an income option, maximize your Social Security payouts by delaying their start date, and don't "lump sum" your pensions. With adequate preparation, living a long life will become a less ominous prospect.

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