The Age Wave – Revisited

By: Conrad J. Netting

In 1990, a new book called *Age Wave* by Ken Dychtwald intrigued me. This book was my first exposure to the concept of baby boomers eventually influencing our society as seniors just as they had in earlier decades – think Hula Hoops, disco dancing, and $1,000 bicycles. Seventeen years later, those boomers are still challenging the world to think in new ways, even in retirement.

Let's get the facts straight:

1. Longevity has risen dramatically – see the chart nearby.
2. A couple, both age 65, has a 50% chance that one will reach age 92, a 25% chance that one will live beyond 97.
3. The rich live longer. Life expectancy rises linearly with earnings partly because wealthier and higher educated people are the first to access longevity treatments.
4. Some believe that the first 150-year-old is now alive; she is 53.
5. If you Google "longevity center" you'll get 113,000 hits.

For our clients, these facts create three serious problems:

1. Inflation has more time to destroy your purchasing power.
2. Assets must last much longer.
3. The cost of health and long-term care, even with insurance, will require more of your assets.

Let's start with inflation. If we project that a client will live until age 75, 10 years after retirement, then inflation eats away about 22% of the purchasing power at retirement. But if that client lives to 85 – a very likely scenario – then inflation removes 56% of the original purchasing power. Result: invest to protect purchasing power. As advisors, we had better not mess that one up.

The second problem is making assets last much, much longer. That means one of three options: start with more assets, spend less during retirement, or invest more aggressively. While the last option is the easiest, it takes gumption because the portfolio will be more volatile. Still, for those who have entered retirement will meager assets or with high spending habits, a more aggressive portfolio is last man standing.

One new option for making money last is a product called longevity insurance. This product calls for the policyholder to make a lump-sum payment now, say age 65, and pays a greatly deferred income stream starting at, say, age 85. That stream continues until the policyholder dies. However, if the policyholder dies before 85, no benefits are paid.

A more traditional technique is the reverse mortgage. This product converts your home equity into an income stream while allowing you to stay in your home. Obviously, when the equity runs out, so does the income.

Health and long-term care costs can erode even the best financial plan. Despite insurance, a retiree can expect to pay Medicare Parts B and D, Medigap insurance, long-term care insurance, and other costs. Our estimates are that a retired couple will need to budget $14,660 (today's dollars) of medical costs annually and that assumes no up ticks in Medicare costs.

I mentioned long-term care insurance as if it were a given. To my mind, it is. Consider that 49% of those who reach age 65 will need long-term care in a facility; 72% will receive professional home care. For women, the percentages reverse to 78% and 66% respectively, because women on average live longer than men and therefore have no one at home to care for them.

Exacerbating these costs is the higher inflation rate for health-related services and products. Rates of 10% and 15% are routinely mentioned.

Are you sufficiently depressed yet? Don't be. Our job – no, actually, our responsibility – is to so plan for our clients' retirement that they don't worry. We help clients understand the risks and address them. We deepen the conversation beyond Mutual Fund A versus Mutual Fund B and instead get to the emotional core of each client's retirement outlook.

If you've crafted a retirement plan but aren't certain that all the demons are out of it, give us a call. We offer a cup of coffee and a second opinion. No obligation – except to your future.