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Longevity

White paper

Rethinking retirement: Why you need to plan with longevity in mind

Key highlights

- **As life expectancy increases with each generation, there's a growing need to help your clients plan for longevity.**
- **Have conversations with clients now about strategies to help their funds last as long as their retirement.**
- **Factor your clients' goals, lifestyle and family structure into their longevity plans.**

We're living in an era of increased longevity, with more clients living to 100 and beyond. In recent decades, the percentage increase of people living to age 100 has grown more than that of the overall population.[1] For your clients, living longer creates opportunities — but also financial anxiety. They need your help to develop a financial plan to fund what could be 40 years of retirement.

The golden years are growing longer

Previous generations' long-term retirement plans may have been for 10 to 15 years. But, for today's and tomorrow's retirees, the golden years may last three decades or more.

Today, the life expectancy for a man age 65 is 84.3; for a woman age 65, it's 86.7. These expectancies are averages, meaning many people will live even longer.[2]

The possibility of living longer should be exciting — it could mean your client is around to watch their grandchildren grow up, or that they'll get to spend more time with their spouse and be around for other milestones. But with that comes the cost of more years of daily living and health care expenses.

It's very important to help clients understand the financial implications of longevity. Decisions they make today may determine how steady their retirement income will be, and how far into their retirement their funds will stretch.

How to help your clients plan for a longer life

While there is no one-size-fits-all solution for longevity planning, the goal for most clients is similar: Make sure their funds last as long as they do, so that they can live confident, comfortable lives.

This paper explores six topics that can be considered in longevity planning:

1. **Consider delaying Social Security**
2. **Plan for health care expenses, and the likely need for long-term care**
3. **Use HSAs as investment vehicles**
4. **Take the long view on equity investments**
5. **Put each portfolio to the tax-efficiency test**
6. **Incorporate spouses into longevity planning**

1. Consider delaying Social Security

Although Social Security is just one component of a retiree's budget, it provides income for life — regardless of how long one lives.[3] This makes it a key benefit for longevity-planning purposes.

Even your most affluent clients will rely on Social Security for at least a portion of their retirement income and, for all clients, it will serve as a guaranteed income stream when they're done working. Fifty-five percent of consumers said Social Security will be their main source of retirement income.[4]

Despite relying heavily on Social Security, many people don't fully understand the benefit, leaving dollars on the table. Today, retirees can begin drawing Social Security benefits as early as age 62, but waiting until full retirement age (FRA) ensures they receive their full benefit.

What's more, waiting until age 70 increases the monthly benefit as much as 76 percent. These advantages of delaying Social Security withdrawal aren't widely known — only 1 in 3 future retirees report knowing what their FRA is.[4]

One possible reason for the confusion: The FRA is changing. Anyone born from 1943 onward is no longer eligible for the traditional retirement age of 65. For these clients, the FRA is 66, and it rises gradually for those born from 1955-59. Those born in 1960 or later have an FRA of 67.[2]

Determining a client's approach to Social Security is one of the most important early conversations to have in the retirement-planning process. Living longer may mean clients want to stay in the workforce for a few extra years, giving them more time to earn and potentially get raises. Social Security benefits are calculated based on the highest-earning 35 years of their career, so working a few more years could pay off down the road. Should clients retire earlier, though, it's worth considering whether they can delay drawing Social Security by living off other income sources.

Social Security is often misunderstood. Remind your clients that:

2. Plan for health care expenses, and the likely need for long-term care

Health care costs are one of the top financial challenges for retirees, but only about a quarter of consumers surveyed have talked to a professional financial advisor about health care costs in retirement.[5]

It's tough for clients to envision a time when they'll need care, especially if they're still working or living an active life early in their retirement years. Yet they are still looking for guidance — 78 percent of consumers expect their financial advisors to provide advice on planning for health care costs in retirement.[6]

While the conversations around health care can be uncomfortable, they're an essential part of longevity planning. It's important that you help your clients understand the potential pressure health care costs could put on their retirement lifestyle.

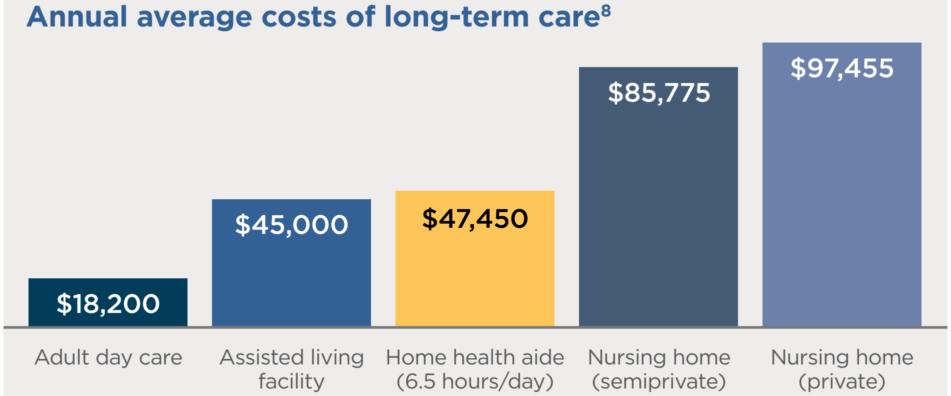
This is especially true of long-term care. No one wants to think about a time when they can't take care of themselves. Still, the fact is that most clients will need long-term care. An individual turning 65 today has a 70 percent chance of needing long-term care at some point in their lives.[5]

Clients may not understand how long-term care differs from other health care. Most long-term care services assist people with activities of daily living such as dressing, bathing, and using the bathroom. An example is a rehabilitation period after surgery, but it can also refer to more permanent needs, which often become necessary with age.[5]

It's important to remember that Medicare does not cover most types of long-term care. Many retirees assume Medicare alone will cover their retirement health care expenses — but, in reality, it covers only a little more than half of retirees' medical bills.[7]

Unfortunately, in order to reduce health care costs, one-fifth of aging Americans have engaged in behaviors that could negatively impact their health, such as delaying treatment when sick, skipping routine screenings or even cutting pills in half.[6]
This underscores the need to begin conversations with clients early and plan for inevitable health care expenses.

Annual average costs of long-term care[8]



A long-term care awakening

Bruce, 55 years old*

Ten years ago, Bruce was on track in saving for retirement. But when his mother developed dementia and needed long-term care, Bruce began to help out financially and his saving plan was affected. Suddenly Bruce questioned whether he would be in a secure financial position in retirement, especially if he himself needs long-term care someday.

Since the experience with his mom, Bruce's quarterly advisor conversations have focused on how he can make smart choices today that balance saving for a long retirement with his current costs of living.

Bruce calls them "life conversations" — he talks with his advisor about how his job is going, the sustainability of his hour-long commute to work and whether he can continue to tend to his rural property in retirement. These personal details lead to rich financial conversations.

"You don't have the same conversations in your 20s as you do in your 50s," Bruce said. "If an advisor had talked to me about health care issues or long-term care planning in my late 20s, it may not have resonated."

*Composite persona drawn from real-life examples.

3. Use HSAs as investment vehicles

Clients covered by high-deductible health insurance plans may have access to a health savings account (HSA). While an HSA can be used for health care expenses during working years, these accounts are also excellent retirement-savings vehicles. Accumulated money can be used to pay for medical expenses in retirement — which helps prevent those expenses from disrupting the flow of other retirement income.

HSAs have a triple tax advantage: Clients who are still working make pretax contributions to their HSA, the money in the HSA grows tax free, and withdrawals for qualified medical expenses are tax free.*

The government determines the maximum annual HSA contribution, and the 2019 limit is $3,500 per year for an individual or $7,000 for a family. A person contributing the maximum for 20 years could accumulate $70,000.[9]

The HSA could be a useful resource to pay for retirement medical costs not covered by Medicare.[6]

At the 2019 maximum contribution, an individual could **save up to $70,000** in their HSA over 20 years[9]

Regardless of when a client plans to retire, it's important to start talking about HSAs as early as possible. An individual can't contribute to an HSA once they enroll in Medicare, so the sooner they begin setting aside money for health expenses, the more confident they'll be when they no longer have employer-sponsored health care and need to pay for medical expenses out-of-pocket.

In 2018, the number of **HSAs increased more than 11 percent** over the previous year.[10]

Yet **only 65 percent of consumers** are using them as an investment vehicle.[6] These accounts can become significant if clients start early and maximize their contributions.

*HSAs are not taxed at a federal income tax level when used appropriately for qualified medical expenses. Also, most states, but not all, recognize HSA funds as tax-free.

Federal tax laws are complex and subject to change. Neither Nationwide nor its representatives give legal or tax advice. Please consult with an attorney or tax advisor for answers to your specific questions.

How an HSA helped make early retirement possible

Leah, 54 years old*

More than 20 years ago, when her father unexpectedly passed away at 54, Leah decided she was going to retire at that age. Today, Leah's retirement party was announced and the countdown is on.

An actuary by trade, Leah has crunched the numbers herself. To have money to pay for medical expenses in the period before she's eligible for Medicare, Leah has been contributing the maximum to her HSA for the past 10 years.

Now that the reality of retirement is here, Leah is looking for a financial advisor who can analyze what she's planned and double-check that there's nothing she's missed.

"I'm in a confident position, but I feel like I need to know what I don't know," Leah said. "I'm no longer saving, and I'm a little more worried about how I'm drawing down money."

Because she's retiring early, Leah may have a very long retirement even if she doesn't have an extra-long life. A financial advisor thinking of portfolio longevity will help her make the most of it.

*Composite persona drawn from real-life examples.

4. Take the long view on equity investments

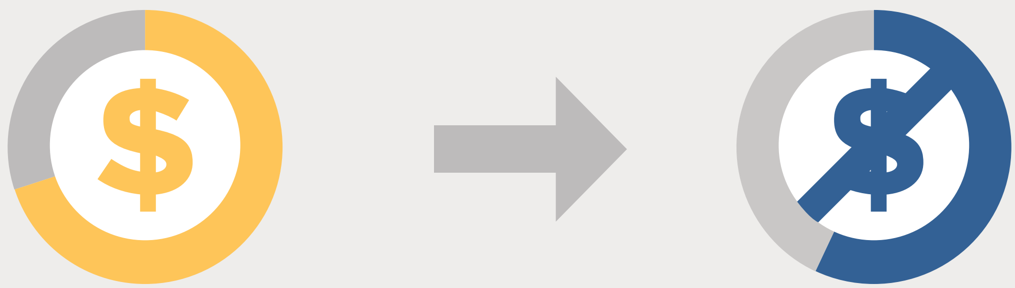
It can be difficult for clients to watch their retirement savings dwindle every year — especially when they have no sense of how long they will live. While savings sources such as a 401(k) can cover some retirement expenses, it's important that clients incorporate a guaranteed income stream into their portfolios.

Social Security is a guaranteed benefit, though many clients over-rely on it.[11] An annuity may also provide a guaranteed retirement income.* Income generation would be accomplished either through annuitization or the purchase of an income rider.

Annuity ownership increases confidence,[12] allowing clients to take a longer-term view of any stock market investments they own — and potentially benefit from holding on to their equities.

Conventional wisdom has held that clients' portfolios should gradually shift from equities to less-risky fixed income funds as they near or enter retirement. But for those who anticipate a long retirement, the potential growth of equity investments should be considered.

Clients who have created a guaranteed stream of income, and who have investments in the stock market, may choose to consider holding on to their equities longer during their retirement years. Of course, doing so would involve risk. As an advisor, you should understand the suitability and client risk tolerance of any recommendation.



Nearly **70 percent of retirees who own an annuity say they're confident** that their savings and investments will not run out if they live to age 90...

...compared with **57 percent of retirees** who don't own an annuity.[12]

*All guarantees are backed by the claims-paying ability of the issuing insurance company.

5. Put each portfolio to the tax-efficiency test

The obligation to pay taxes doesn't go away when someone is no longer working. Even your most financially savvy clients are looking for guidance. In fact, advisors cite taxes as among the top three financial concerns for their clients regardless of generation.[13] In your role, you may not be able to offer specific tax advice, but you could help by facilitating a three-way conversation with your client and their tax advisor.

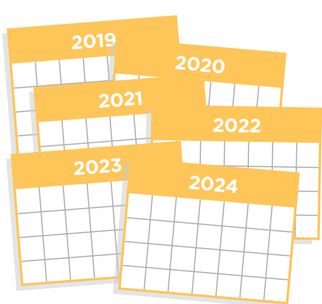
Taking tax-efficient steps may prolong portfolio life, and account diversity is step one. Encourage your clients to diversify their portfolios to include taxable, tax-deferred and tax-free investment vehicles.

For example, if a client has invested in stocks, those are taxable whenever they are sold at a profit. Perhaps the client has a 401(k), which grows tax deferred and is taxed only at withdrawal. It might be smart for this client to add something to their portfolio that is tax free when withdrawn, such as a Roth IRA.

The reason is, no one can predict the future. There may be changes in the economy such as a recession or inflation. There may be a drop in the stock market, which could affect the value of those investments. And there may be changes to tax laws.

These factors could affect different categories in different ways, so it's wise for clients to have money in all three categories if possible. This helps them control not only how much they pay in taxes but also when they pay them.

Structuring withdrawals with taxes in mind can extend the life of a client's retirement portfolio up to six years, generate more income in retirement and preserve assets to pass on to heirs.[14] Proper timing can also help clients avoid higher tax brackets or reduce unintended taxes on guaranteed income sources such as Social Security.



A tax-efficient income strategy could add **up to 6 years of portfolio longevity.**[14]

Deciding where and when to withdraw

Charlie, 53 years old*

When Charlie's dad passed away last year, he left behind a large binder with all the materials his mother needed to carry on without him. He left no questions unanswered, and Charlie is a planner just like his dad.

Charlie has already made some retirement decisions: He will wait until 65 to start collecting his pension, and until 70 to start withdrawing his Social Security benefit. Meanwhile, he has been contributing the maximum to his HSA for years.

He and his partner anticipate retiring in the next few years, so now Charlie is looking for an advisor to explain the possible tax scenarios and help him develop a strategic withdrawal plan.

"At this point in my planning, I need unbiased advice about how to make my money last," Charlie said. "Plus, the tax laws have changed, and I'd like to get an advisor's take."

For clients like Charlie, the reality of retirement being just a few years away could be what prompts them to walk through your door. They've been planning independently but need to learn whether there are aspects they haven't yet considered.

*Composite persona drawn from real-life examples.

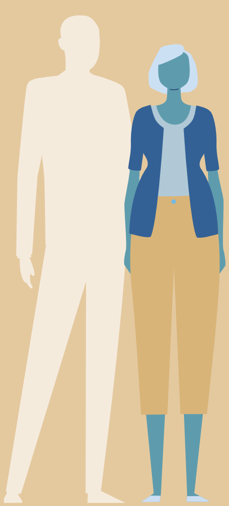
6. Incorporate spouses into longevity planning

For most clients, planning for a time when their spouse is no longer around is one of the toughest aspects of the longevity conversation. Because of this, some clients avoid it altogether. Seventy percent of affluent adults have not had a conversation with their spouse about retirement costs.[6]

Couples need to make sure that, regardless of who is left behind and for how long, they can live comfortably. Statistically, women have a higher chance of outliving their spouse.[2]

Your clients may not currently know about spousal protections — or that in some cases they must take steps to ensure them.

For 48 percent of couples, one spouse will outlive the other **by 10 years or more.**[15]

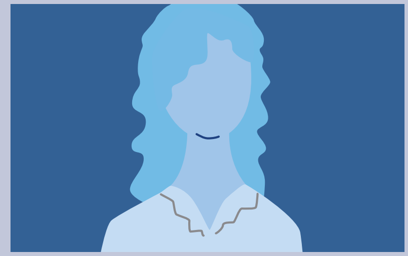


The Social Security switch: If the spouse who has a higher Social Security benefit is the one to pass away, their widow or widower can switch from collecting their own benefit to collecting the high earner's benefit.

HSAs pass to named spouses: If a client names their spouse as their HSA beneficiary, at their death the surviving spouse becomes the account owner and can use it for their own medical expenses.

Name a co-annuitant: A joint or survivor annuity in both partners' names will ensure that the surviving member of the couple continues to receive regular income for life (assuming annuitization or the purchase of an income rider).

Plan for the unexpected: Life insurance can give clients a level of comfort that their loved ones will receive tax-free payouts in the event of an unexpected death.



A thoughtful spouse, and a second chapter

Sofia, 50 years old*

When Sofia's husband of 25 years passed away unexpectedly, she was left with a lump-sum life insurance payment. Although she was devastated, Sofia suddenly had money to invest — and an opportunity to rethink her own retirement plans.

"I'm so grateful that my husband was passionate about having a life insurance policy — it has protected the plan for my family's future," Sofia said.

Sofia chose her financial advisor because she knew that she could have honest, transparent discussions with her — about the good, the bad and the ugly — without feeling inadequate or judged. The advisor earned Sofia's trust by asking questions about her risk tolerance and personal wish list, which included being able to pay for her two daughters' weddings.

"I like that we have a partnership where she can encourage me to think big," Sofia said. "I can now enjoy life's milestones and still feel prepared for a long retirement."

*Composite persona drawn from real-life examples.

Life may be long, but the conversation is timely

Longevity planning is fundamentally changing the way advisors help their clients prepare for and live in retirement. Start having these conversations now so that your clients can begin thinking about the financial implications of a longer life. And for those who have already retired, talk with them about how they want to spend what could be many more golden years.

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[1] "Centenarians: 2010," U.S. Census Bureau (2012).

[2] Social Security Administration (2019).

[3] "2019 Social Security Changes," Social Security Administration (2019).

[4] "2018 Nationwide Social Security Consumer Survey," conducted online by The Harris Poll on behalf of the Nationwide Retirement Institute. The fifth annual survey was taken Jan. 22-Feb. 5, 2018, among 1,013 U.S. adults ages 50 or older who are retired or plan to retire in the next 10 years.

[5] "How Much Care Will You Need?" U.S. Department of Health and Human Services (Oct. 10, 2017).

[6] "2018 Nationwide Health Care and Long-Term Care Consumer Survey," conducted online by The Harris Poll on behalf of the Nationwide Retirement Institute. The fourth annual survey was taken Feb. 5-22, 2018, among 1,007 U.S. adults ages 50 or older who have a household income of $150,000 or more ("affluent adults"), and 522 U.S. adults ages 50 or older who are or have been caregivers.

[7] LIMRA Secure Retirement Institute (2018).

[8] "Long-Term Care Insurance Statistics," LTC Tree (August 2018).

[9] "Publication 969: Health Savings Accounts and Other Tax-Favored Health Plans," Internal Revenue Service (2018).

[10] "2018 Midyear Devenir HSA Research Report," Devenir (Aug. 22, 2018).

[11] "2019 Nationwide Social Security Consumer Survey," conducted by The Harris Poll on behalf of the Nationwide Retirement Institute. The sixth annual survey was taken Feb. 11-21, 2019. It included 1,315 U.S. adults age 50 or older who currently collect or plan to collect Social Security benefits.

[12] "The Differences They Make: An Advisor, an Annuity or a Formal Plan in a Retiree's Life," LIMRA (Feb. 1, 2018).

[13] "Fourth Annual Advisor Authority Study," conducted online by The Harris Poll on behalf of Nationwide Advisory Solutions. The survey was taken Jan. 3-Feb. 21, 2018, among 972 U.S. financial advisors and 827 U.S. investors ages 18 and older.

[14] "Tax-Efficient Withdrawal Strategies," Cook, Meyer and Reichenstein, CFA Institute publication, Volume 71, No. 2 (2015).

[15] "IRI Fact Book 2016," Insured Retirement Institute (2016).

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