GREENE WEALTH MANAGEMENT LLC

"If I'd know how old I was going to be I'd have taken better care of myself."

-Adolph Zukor (American film mogul) on approaching his 100th birthday-

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Baby boomers have transformed life in America every step of the way since they were born. A trip down memory lane will bring reminders of Gerber baby food, Wham-o hula hoops, Levi jeans, Capital records, muscle-cars, booming life insurance sales, and housing spikes both when parents of boomers moved to the suburbs and then again as boomers formed their own families. The change in US population growth from 2000-2020 was +73% for ages 55-64 and +54% for ages 65-plus—and as they say, "you ain't seen nothing yet" as the percentage of our population over 65 rises steadily.

Noted gerontologist and expert on aging-related issues Ken Dychtwald recently gave his keynote speech "How the Age Wave Will Transform Health, Longevity & Medicine" to leading innovators, clinicians, and investors who came together to explore the cutting edge of technology and medicine. Dr. Dychtwald dramatically explained how the longevity revolution is forcing us to re-imagine the next frontier of health and science. As in the past, boomers are "pushing the envelope" with science to extend life expectancy. We have seen remarkable medical advances that already make living to 100 more likely than ever before—and potential breakthroughs may change lifespans even more. Rising longevity will have a significant impact as we seek to plan for this new future.

Better health and longer life expectancy are already causing people to rethink retirement. In general, 65 year olds today don't look or act at all like their grandparents who truly looked "old" at the very same age. Many boomers want to work much longer than the traditional age 65 target—and many will have to with limited savings and more years of life ahead. We will certainly need to plan for funding spending needs that may last longer than assumed in the past. GWM typically uses age 95 rather than average life expectancy in financial plans—and adjust plans based on client input that reflects their health, family history, and outlook for change.

Longevity is also going to change the demand for and delivery of care in the future. As people live longer, evidence points to the need for more help down the road dealing with age-related health problems. Back and joint pain that limit mobility, poor balance that causes falls, stroke, and memory loss are common problems of aging. Hopefully medical advances will solve some of these problems (particularly Alzheimer's) and there are incredible efforts to do so, but we just don't know. So, it seems prudent to think about these and how to deal with them.

Getting help with everyday living is referred to as "long-term care". Most people have family members or at least know someone who has needed care. Care can take many forms, ranging from just a little help with certain activities to 24/7 nursing care and everything between. Much of the care is provided out of love or sense of duty by family members--spouses and/or adult children. But the loss of a spouse or adult children with busy lives who may live far away can reduce or even eliminate this option, resulting in the need for paid care. Care may be provided in the home, at adult day-care facilities, in assisted living facilities, continuing care retirement communities, memory loss facilities, and in many cases a combination of options as care needs evolve. Costs for care vary--from "free" care provided by family to paid care that can be $100,000 per year or more.

Talking about this can be uncomfortable. Most of us find it difficult to think about getting old and it seems easy to assume this will impact someone else, not us. But statistics show that some 70% of people over 65 will need some type of long-term care during their lifetimes and that over 40% of us will need care in a nursing home for at least some period of time. All of which suggests the importance of having honest/serious conversations about this issue--and early planning can pay off. Learn about the issues from family, friends, doctors, clergy, legal/financial advisors, and care providers. Consider your health and family history. Have frank conversations with your spouse/significant other and your children about their willingness/ability to help if the time comes you need help. Check-out care facilities while you're still in good shape, as many will not take you if you're not, and consider getting on a waiting list.

The issue of how you'll pay for potential long-term care clearly should be part of the thinking. Over the past decade, we've had several clients need long-term care, giving us a first-hand look at some of the issues and costs. As noted above, the amount, type, and duration of care needed has varied. So too have costs and the impact on family finances. Fortunately, many of our clients are pretty well-to-do and have simply paid for care costs out of income and retirement assets, and none (so far) have run out of money. I cannot think of examples where federal, state, or local benefits have paid costs, so it's probably not wise to count on a "government bailout" to deal with this issue. A growing number of clients have sold their homes and used proceeds to buy into one of many continuing care retirement communities (CCRC's). Many of these facilities are very nice with lots of amenities and provide the peace of mind knowing care will be provided for life. As with any big purchases, care should be taken to understand pros/cons in making well-informed choices. Several clients had purchased long-term care insurance with policy benefits paying for some or even all care costs.

The idea of insuring against potential long-term care costs seems reasonable at first blush. We don't know if we'll actually need care, what kind of care might be needed, or how long care might be needed—and thus how to plan for costs. Long-term care insurance (LTCI) has been offered for over 20 years. The first policies we saw were not very good, often with limited benefits and restrictive definitions. Federal "HIPAA" legislation in 1996 created important ground-rules for LTCI insurance that would qualify for favorable tax-treatment and began a new era of better plans. In general, these policies provide benefits if the insured cannot perform 2 of 6 "activities of daily life", has Alzheimer's, or has any other significant cognitive impairment—and premiums can be tax-deductible. Buyers could select amounts and duration of benefits—and even automatic benefit increases designed to offset the impact of inflation. And most plans touted level "scheduled" premiums. All sounds pretty good so far.

Unfortunately, with the benefit of 20/20 hindsight, it's clear that insurance companies underpriced LTCI policies—perhaps due to competitive pressures, substantially underestimating future claims, or overestimating the impact of lapses and interest earnings on premiums. Unlike with life insurance, where longevity helps, longer lifespans mean higher claims for LTCI. In a 1/17/18 article, the Wall Street Journal reported that millions who bought long-term care insurance policies are being hit by steep rate increases as insurers are battered by losses. The article noted that GE was taking a $9.5 million pretax charge because of losses on LTCI policies sold in the 80s and 90's. The article went on to say that the 7.3 million people who bought LTCI are faced with an awful choice: pay higher premiums or walk away from coverage. It went on to talk about a 90% premium increase for a CNA policyholder—and we've personally seen clients with rate increases of 30-50% or more. While some carriers were quick to raise premiums, many reputable insurers held-off on premium increases for as long as possible, but eventually were forced to do so as much higher than anticipated claims and low interest rates took their toll. Many companies, including some of the biggest, stopped selling LTCI policies altogether, and the relatively few remaining carriers now sell plans with more limited benefits and higher premiums. One small insurer, Penn Treaty, actually collapsed with a gap of $3.4 billion between their assets and claims liabilities. The judge blasted regulators for not granting rate increases sought by Penn Treaty years before its collapse—now state guarantee funds are paying some of the company's claims.

All of this makes the question "to insure or not insure" difficult to answer--and suggests the need for thoughtful discussion and careful planning. And while rising longevity is generally good news for boomers, it does create issues that should be weighed in planning for a future that may be longer than we ever imagined. It is a powerful reminder that planning is a process, not an event, that requires ongoing review and updating. Let us know if you'd like to talk about all of this.

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