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

Key topics:

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 are living in an era of increased longevity. A man age 65 today has a 30% probability of living until at least age 90, while a woman of the same age has a 40% chance of living to age 90.[1]

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 3 decades or more.

Today, the life expectancy for a man age 65 is 84.2; for a woman age 65, it's 86.8. 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 increased longevity comes the cost of more years of daily living and health care expenses.

It's 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.

[1] "There's a good chance you're not planning for retirement correctly. Here's why," Aimee Picchi, cbsnews.com/news/retirement-longevity-how-long-will-you-live/ (Sept. 26, 2023).

[2] "Retirement & Survivors Benefits: Life Expectancy Calculator," ssa.gov/oact/population/longevity.html (accessed Jan. 2, 2024).

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 they can live confident, comfortable lives.

This paper explores 6 topics that can be considered in longevity planning:

1. Consider delaying Social Security benefits.
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 benefits.

Although Social Security is just one component of a retiree's budget, it provides income for life — regardless of how long one lives. 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. More than half of all baby boomers who have additional sources of income in retirement said Social Security will be their main source of retirement income.[3]

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 that they receive their full benefit.

What's more, waiting until age 70 increases the monthly benefit by as much as 77%, compared with what would be received at age 62.[4] These advantages of delaying Social Security withdrawal aren't widely known — only 15% of adults correctly guess their FRA based on their year of birth.[5]

One possible reason for the confusion: The FRA has been changing. The full retirement age was 66 if you were born from 1943 to 1954. For anyone born between 1955 and 1960, their FRA is somewhere between their 66 and 67th birthday. For anyone born in 1960 or later, full retirement benefits are payable at age 67.[6]

Determining a client's approach to Social Security is one of the most important early conversations to have in the retirement planning process. Longevity or inflation concerns may mean clients want to stay in the workforce for a few extra years, giving them more time to earn and potentially increase their monthly benefit amount. Social Security benefits are calculated based on the highest-earning 35 years of their career, so working a few more years could pay off, with these wages replacing lower-wage years. 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:

- Social Security is protected against inflation
- The age at which you begin withdrawing Social Security impacts your monthly payment amount
- The estimated average monthly Social Security benefit for 2024 is $1,907[6]

[3] "The Peak Boomers Impact Study," Alliance for Lifetime Income, Robert Shapiro and Luke Stuttgen, protectedincome.org/peak65-economic-impact-forum (April 2024).

[4] This figure is based on an individual with an FRA of 67; it compares early filing at age 62 and receiving reduced benefits of 70% of the primary insurance amount versus delayed filing at age 70 and receiving credits to increase benefits by 24% of the primary insurance amount.

[5] The Nationwide Retirement Institute® 2024 Social Security Survey, conducted online within the U.S. by The Harris Poll on behalf of Nationwide between April 19 and May 13, 2024.

[6] Social Security Administration (2024).

2. Plan for health care expenses and the likely need for long-term care (LTC).

Health care costs are one of the top financial challenges for retirees, and 62% of adults age 50+ are terrified of what health care costs may do to their retirement plans.[7]

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; three-quarters of adults (75%) can't estimate how much they'll need to cover health care costs in all of retirement.[7] While the conversations around health care can be uncomfortable, they're an essential part of longevity planning. It's important to help your clients understand the potential pressure that 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 might not be able to take care of themselves. Still, the fact is that most clients will need long-term care. And consider that more than half of retirees or baby boomers (60%) don't feel very knowledgeable about how to plan for LTC.[8]

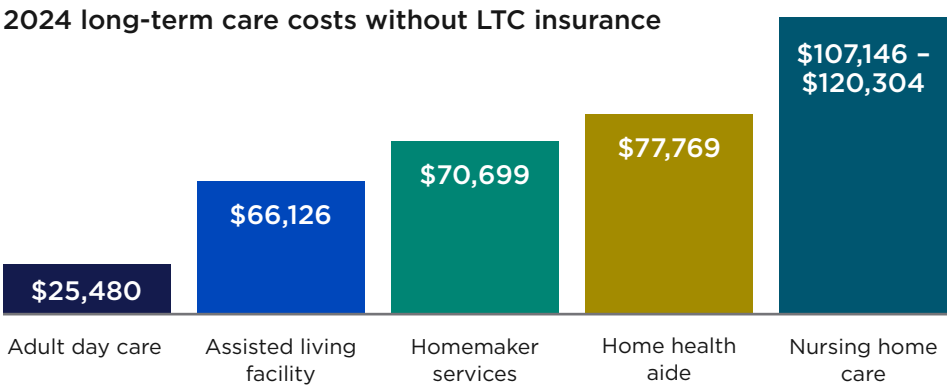
Clients may not understand how long-term care differs from other health care. Most LTC services can assist people with activities of daily living such as dressing, bathing and using the bathroom. Since the 2020 global pandemic, the number of retirees considering staying home as an LTC option has increased. 86% of adults feel it's more important than ever to stay in their home for LTC.[7]

72% of U.S. adults think Medicare covers long-term care.[7]

Managing health care costs should be a part of clients' personal financial plans. **85%** of U.S. adults surveyed agree.[7]

This underscores the need to begin conversations with clients early and to plan for inevitable health care expenses.

2024 long-term care costs without LTC insurance



Source: "Senior Care and Housing Costs," seniorliving.org/care/cost (May 16, 2024).

A long-term care awakening

Bruce, 55 years old[9]

10 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 savings 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.

Because of the experience with his mom, Bruce's quarterly conversations with his financial professional 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 financial professional about how his job is going, the sustainability of his hourlong 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 a financial professional had talked to me about long-term care planning in my late 20s, it may not have resonated."

[7] 2023 Nationwide Health Care Costs in Retirement Consumer Survey, conducted online within the U.S. by The Harris Poll on behalf of Nationwide between Aug. 28 and Sept. 11, 2023, among 1,260 U.S. adults age 18+ (general population sample), including 301 Gen Z (age 18 to 26), 310 millennials (age 27to 42), 307 Gen Xers (age 43 to 58),and 342 boomers+ (age 59+).

[8] The 2023 Nationwide Retirement Institute® 2023 Long-Term Care Survey, conducted online within the U.S. by LIMRA in collaboration with Nationwide between April 25, 2023, and May 12, 2023, among 1,439 adults age 42+.

[9] This is a composite persona drawn from real-life examples.

How an HSA helped make early retirement possible

Leah, 54 years old[9]

More than 20 years ago, when her father unexpectedly passed away at age 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 professional 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 professional thinking of portfolio longevity will help her make the most of it.

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.[10]

The government determines the maximum annual HSA contribution. The 2024 limit is $4,150 per year for an individual and $8,300 for a family.[11] A person contributing the maximum for 20 years could save nearly $100,000 (assuming continued IRS COLA increases over this time).

Almost half of employed adults have an HSA available from their employer, and most use it to pay only for today's health care expenses.

> Contributing the maximum allowable amount to an HSA for each of the next 20 years could result in close to $100,000 for retirement medical expenses.

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.

Consumers had about **36 million** total HSAs by the end of 2023, an **annual increase of 6%.**[12]

Yet **only 23% of consumers** are planning to use them in retirement.[7] These accounts can become significant if clients start early and maximize their contributions.

[10] HSAs are not taxed at a federal income tax level when used appropriately for qualified medical expenses.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.

[11] "IRS Gives Big Boost to HSA, HDHP Limits in 2024" shrm.org/topics-tools/news/benefits-compensation/irs-gives-big-boost-to-hsa-hdhp-limits-2024 (May 17, 2023)

[12] Devenir Research 2023 Midyear HSA Market Statistics & Trends Executive Summary," devenir.com/wp-content/uploads/2023-Midyear-Devenir-HSA-Research-Report-Executive-Summary.pdf (Sept. 21, 2023)."

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 life will be. While a savings source such as a 401(k) can cover some retirement expenses, it's important that clients consider their income floor — or the amount of guaranteed monthly income available to cover at least a portion of their regular needs in retirement.

Social Security is a guaranteed benefit, although on average, it typically replaces only 40% of a retiree's preretirement earnings.[6] An annuity can also provide guaranteed retirement income.[13] Income generation would be accomplished either through annuitization or the purchase of an income rider.

Annuity ownership may allow 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 clients near or enter retirement.

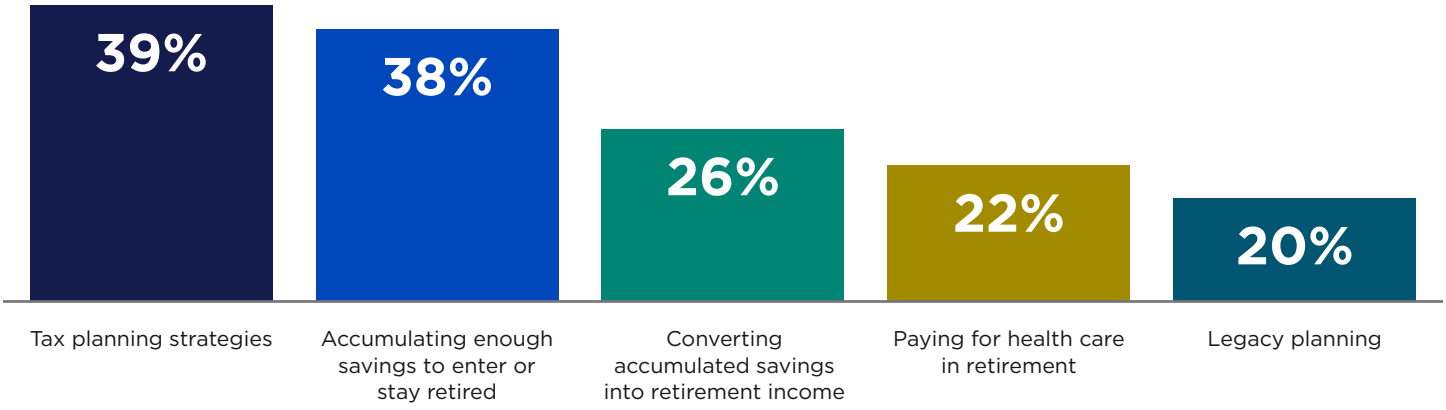
But for those who anticipate a long retirement, the potential growth of equity investments should be considered.

Clients who have created a guaranteed stream of income and 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 a financial professional, you should understand the suitability and client risk tolerance of any recommendation.

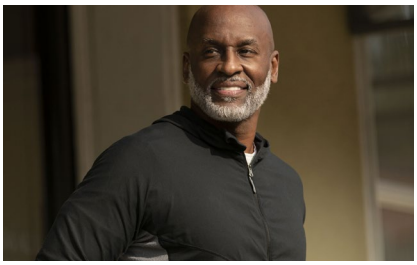
Consumers embrace guaranteed retirement income solutions and want to learn more about these options from their financial professional.[5]

Investors are turning to their financial professionals most frequently for guidance on these retirement topics.[14]



[13] All guarantees are backed by the claims-paying ability of the issuing insurance company.

[14] "The Nationwide Retirement Institute 2024 Advisory Authority Survey" was conducted online by The Harris Poll from January 8-23, 2024, among 518 financial professionals and 2,346 investors, ages 18+.



Deciding where and when to withdraw

Charlie, 53 years old[9]

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 a financial professional 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 a financial professional'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.

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. 2 out of every 3 affluent individuals say tax knowledge tops the list of important considerations when selecting a financial advisor.[15] In your role, you may not be able to offer specific tax advice, but you could help by facilitating a 3-way conversation with your client and their tax advisor.

Taking tax-efficient steps may prolong portfolio life, and account diversity is step 1. 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.

No one can predict the future. There may be changes in the economy, such as a recession or inflation. There might 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 various categories in different ways, so it's wise for clients to have money in all 3 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, generate more income in retirement and preserve assets to pass on to heirs. Proper timing can also help clients avoid higher tax brackets or reduce unintended taxes on guaranteed income sources such as Social Security.

A more tax-efficient retirement income distribution plan can:

- Add years to the life of the retirement portfolio
- Improve levels of after-tax income
- Add to the estate value for heirs

[15] "Build your tax and financial planning advisory services," aicpa-cima.com/resources/landing/build-your-tax-and-financial-planning-advisory-services (accessed July 2, 2023).

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. Fewer than 1 in 5 adults (18%) say they have actually discussed long-term care planning with their financial professional.[8]

Couples need to make sure that, regardless of who is left behind and for how long, they can live comfortably.

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

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 higher earner's benefit.

HSAs pass to named spouses: If a client names their spouse as their HSA beneficiary, at the client's 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[9]

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 professional 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 financial professional 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."

Life may be long, but the conversation is timely

Longevity planning is fundamentally changing the way financial professionals help their clients prepare for and live in retirement. Start having these conversations now so 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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