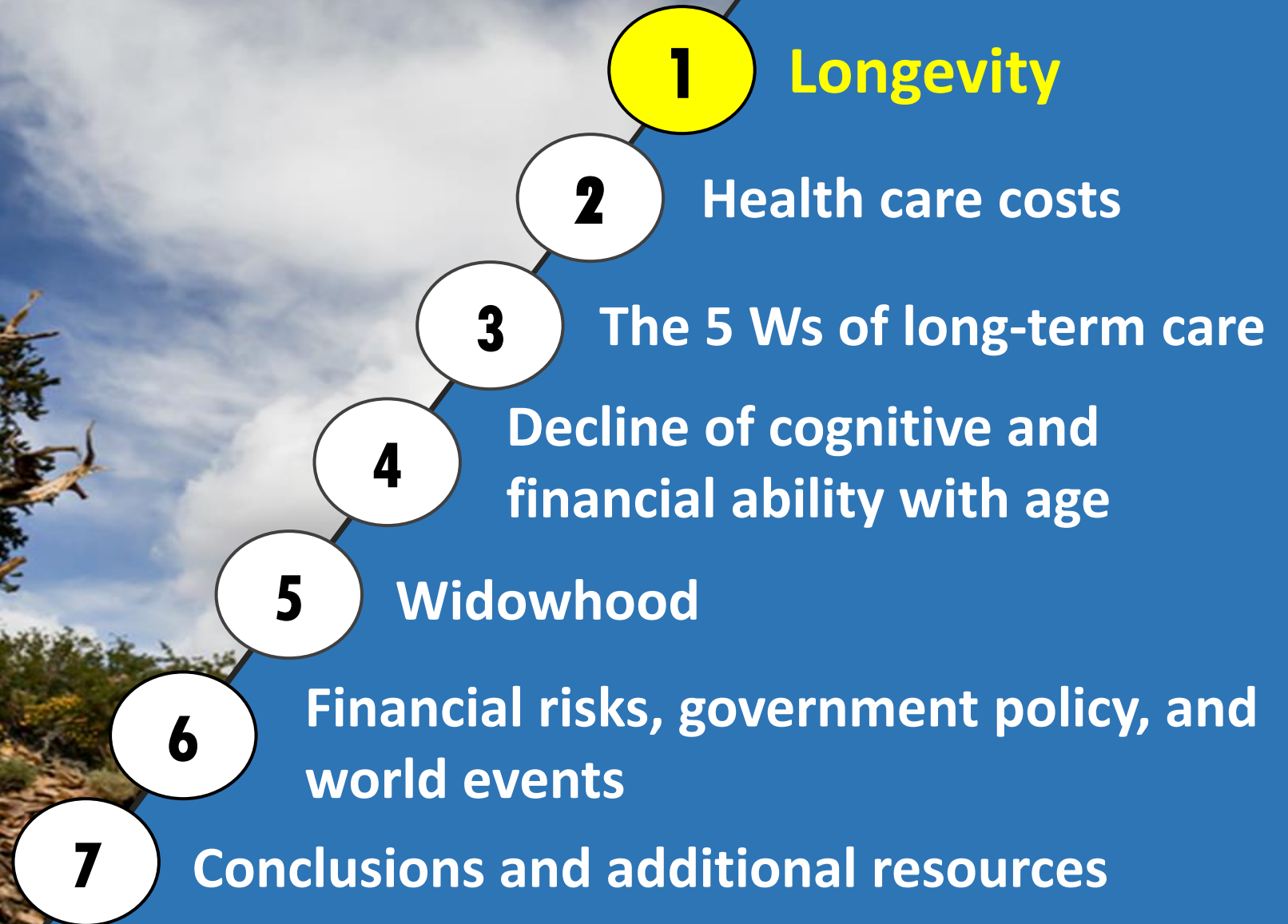


Longevity Risk: **Impact of unexpected longevity and unforeseen events**

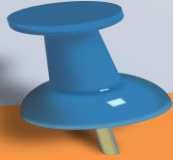


Robert Pokorski, MD, MBA

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- 1** Longevity
 - 2** Health care costs
 - 3** The 5 Ws of long-term care
 - 4** Decline of cognitive and financial ability with age
 - 5** Widowhood
 - 6** Financial risks, government policy, and world events
 - 7** Conclusions and additional resources

Longevity risk



Expenses that are manageable early in retirement can become unmanageable if they need to be funded for longer than planned, especially if unforeseen events occur during a long retirement.

Points of engagement

- Longevity risk- Risk that nest egg
 - (1) may not sustain desired lifestyle during retirement, and/or
 - (2) may be significantly depleted, thereby affecting bequests to surviving spouse, children, grandchildren, or favorite charity
- Cause
 - Unexpected longevity plus unforeseen events that diminish financial assets

Longevity in couples in excellent health

Estimated longevity for 100 65-year-old couples who rate their health as “excellent”

Age	Man alive ¹	Woman alive ¹	Both alive ²	Man only alive ²	Woman only alive ²	One or both alive ³	Neither alive ³	Widowed couples ²
80	78	84	66	12	18	96	4	32%
90	43	53	23	20	30	73	27	69%
100	8	13	1	7	12	20	80	95%

¹ Age 80. 78 of 100 men are alive (66 in a couple + 12 widowed), and 84 of 100 women are alive (66 in a couple + 18 widowed).

² Age 80. 66 couples (both alive), 12 widowed men, 18 widowed women, and 4 couples where neither person is alive. 32% of couples (where at least one person is alive) are widowed.

³ Age 90. One or both people are alive in 73 of 100 couples (23 couples + 20 widowed men + 30 widowed women). Neither person is alive in 27 couples.

Points of engagement

- More than 4 in 10 (43%) men and more than half (53%) the women in excellent health live to 90; 1 in 12 (8%) men and 1 in 8 (13%) women reach age 100
- Longevity risk is higher in those who live to older ages

Longevity for couples in average health

Estimated longevity for 100 65-year-old couples who rate their health as “average”

Age	Man alive ¹	Woman alive ¹	Both alive ²	Man only alive ²	Woman only alive ²	One or both alive ³	Neither alive ³	Widowed couples ²
80	71	80	57	14	23	94	6	40%
90	33	44	15	18	29	62	38	77%
100	4	8	0	4	8	12	88	97%

¹ Age 80. 71 of 100 men are alive (57 in a couple + 14 widowed), and 80 of 100 women are alive (57 in a couple + 23 widowed).

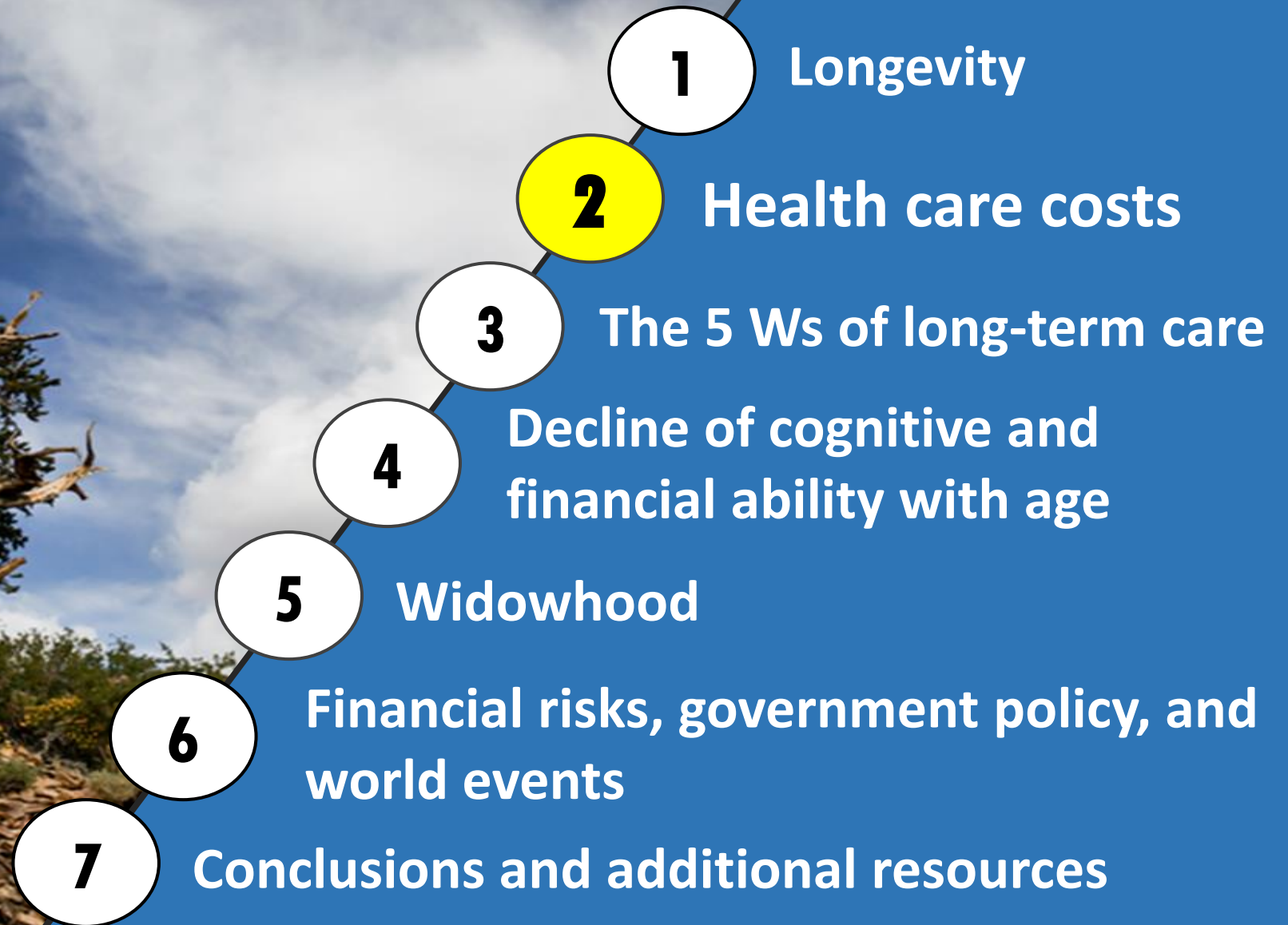
² Age 80. 57 couples (both alive), 14 widowed men, 23 widowed women, and 6 couples where neither person is alive. 40% of couples (where at least one person is alive) are widowed.

³ Age 90. One or both people are alive in 62 of 100 couples (15 couples + 18 widowed men + 29 widowed women). Neither person is alive in 38 couples.

Points of engagement

- 1 in 3 (33%) men and more than 4 in 10 (44%) women in average health live to 90; 1 in 25 men (4%) and 1 in 12 women (8%) reach age 100
- Longevity risk is higher in those who live to older ages

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Chronic diseases common at older ages

- Age is strongest risk factor for chronic diseases, causing:
 - Decline of cognitive and financial ability
 - Frailty, falls, fractures
 - Health care costs
 - Hospitalizations
 - Long-term care
 - Mortality
 - Widowhood
- Chronic diseases require treatment, which means higher health care costs

Share (%) of people with chronic diseases

	Age 60	Age 70	Age 80
Arthritis	19	29	38
Heart arrhythmias	7	16	31
Chronic kidney disease	3	6	11
Chronic lung disease	4	7	12
Coronary artery disease	7	17	28
Diabetes	20	31	35
Heart failure	1	3	8
Osteoporosis	3	8	15
Stroke	1	4	9

Distribution of health care costs

- Health care costs are highly dependent on out-of-pocket prescription drug expenses
- Example: 65-year-old couple with drug expenses at the 75th percentile throughout retirement needs \$295,000 (at age 65) to have a 90% chance of having enough money for health care costs during retirement

Chance of having enough savings to pay for health care costs during retirement for a 65-year-old couple retiring in 2021, based on drug expenses at the 50th, 75th, or 90th percentile*

Chance of having enough savings	50 th percentile drug expenses	75 th percentile drug expenses	90 th percentile drug expenses
50%	\$182,000	\$186,000	\$235,000
75%	\$245,000	\$246,000	\$306,000
90%	\$296,000	\$295,000	\$361,000

* Fronstin P, et al. Projected savings Medicare beneficiaries need for health expenses spike in 2021. EBRI. January 13, 2022. Includes Medicare Part B premiums and deductibles, Medicare Part D premiums, Medigap premiums, and out-of-pocket drug expenses. 50th percentile is the median. Costs do not include long-term care or vision, hearing, or dental expenses.

Income-related monthly adjusted amount (IRMAA)

- Premium surcharge for Medicare Parts B and D paid by 7% of higher-income beneficiaries based on modified adjusted gross income
- For couples, both people pay the surcharge
- Currently indexed for inflation, but not indexed between 2010 and 2019

Additional monthly IRMAA premiums, 2022			
Individuals	Married, filing jointly	Part B	Part D
\$91,000 or less	\$182,000 or less	\$0.00	\$0.00
\$91,001 – \$114,000	\$182,001 – \$228,000	\$68.00	\$12.40
114,001 – \$142,000	\$228,001 – \$284,000	\$170.10	\$32.10
\$142,001 – \$170,000	\$284,001 – \$340,000	\$272.20	\$51.70
\$170,001 – \$500,000	\$340,001 – \$750,000	\$374.20	\$71.30
\$500,000+	\$750,000+	\$408.20	\$77.90

Medicare Program; Medicare Part B Monthly Actuarial Rates, Premium Rates, and Annual Deductible Beginning January 1, 2022. Federal Register. November 17, 2021. Social Security Program Operations Manual System (POMS). December 6, 2021.

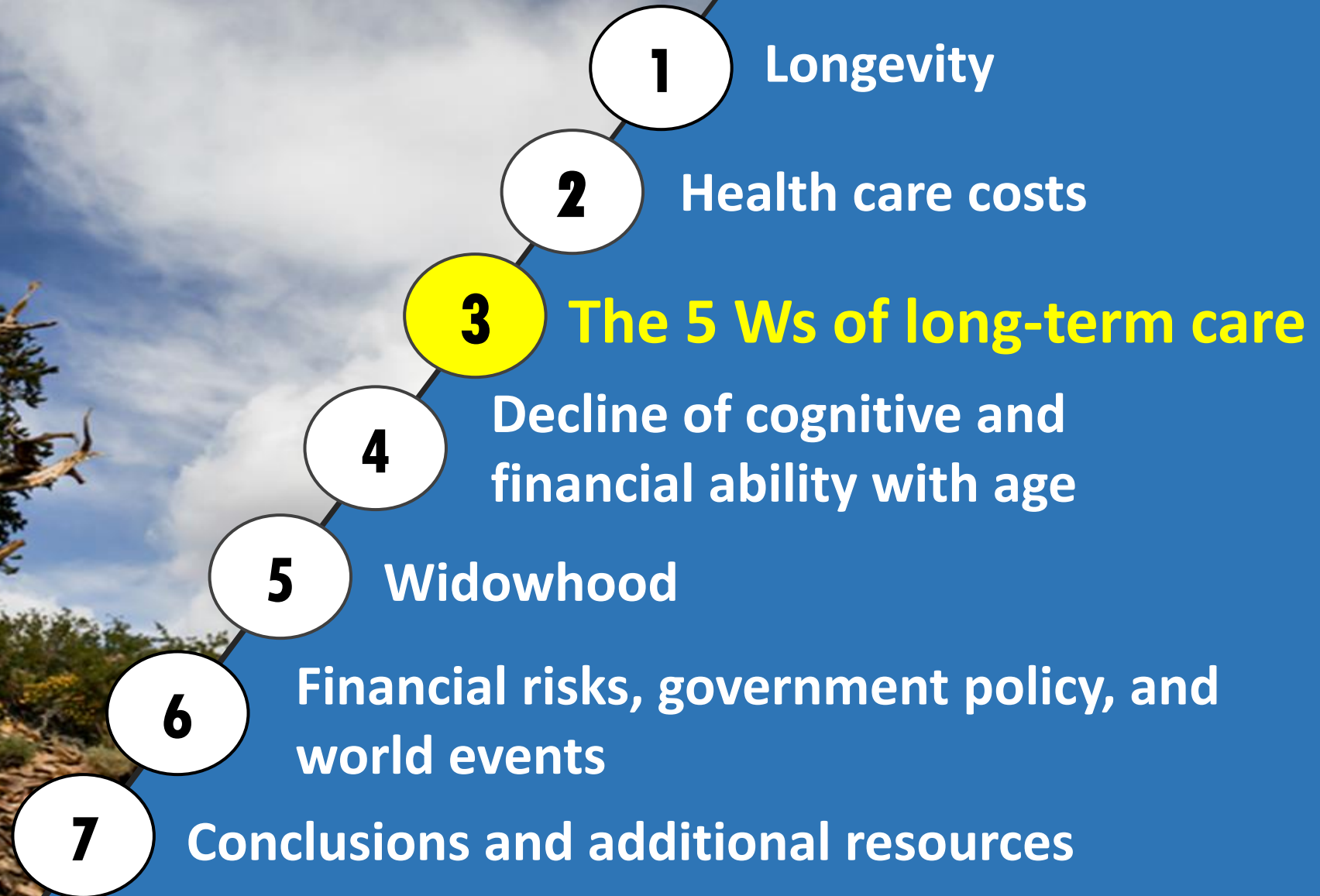
Health care costs: Points of engagement

- Costs difficult to predict
 - Discuss cost distribution and the chance that a given amount of savings at age 65 will be enough to fund health care during retirement
- Treat Medicare premiums as a budgetable item
 - Medicare premiums are predictable and represent two-thirds (64%) of health care spending by retirees¹
 - Cost appears more manageable if funded annually or monthly, like housing and food
- Healthy retirees may pay more
 - Healthy retirees could have higher than average cumulative costs if they live significantly beyond life expectancy
- Cost increases
 - “In the future, individuals are likely to pay greater shares of overall health costs in retirement because of the financial condition of Medicare”²
- Likely targets for future cost increases
 - Medicare payroll tax, Medicare premiums, and IRMAA

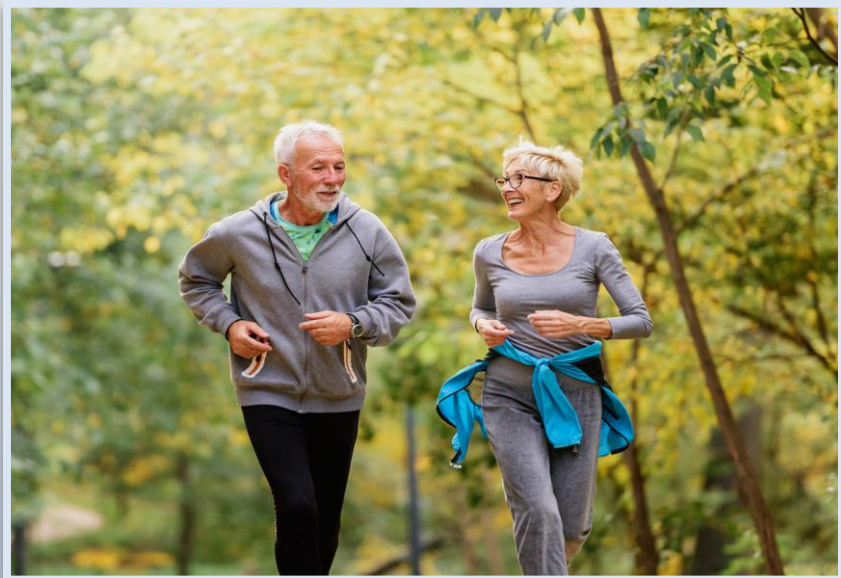
¹ Halen N, et al. Understanding the true cost of health care in retirement. Retirement Management Journal. November 1, 2020.

² Fronstin P, et al. Projected Savings Medicare Beneficiaries Need for Health Expenses Spike in 2021. EBRI. January 13, 2022.

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The Goldilocks Years



- Many people are in the “Goldilocks” phase of life: health, wealth, physical ability, and memory are “just right”
- Much can change

¹ Pokorski R. Joint probability of LTC in couples. NAILBA Perspectives. 3rd quarter 2021.

² Johnson RW. What is the lifetime risk of needing and receiving long-term services and supports? ASPE Research Brief. Urban Institute. April 2019, p.19.

³ Favreault MM, et al. Projections of risk of needing long-term services and supports at ages 65 and older. Urban Institute. January 2021, p.49.

- 9 in 10 couples will need long-term care (LTC)¹
- 1 in 3 women and 1 in 5 men will need care for 4 years or more²
- 1 in 10 relatively wealthy individuals will spend \$250,000 or more for LTC³



WHY will we need LTC?

Conditions that often require long-term care		Long-term care not needed
Recovery is not expected	Recovery is delayed, but can be expected	Normal course of disease
<ul style="list-style-type: none">• Alzheimer's disease & other dementias• Severe stroke• Crippling arthritis• Severe brain & spinal cord injuries• Progressive degenerative neurologic conditions	<ul style="list-style-type: none">• Serious automobile accidents• Some brain & spinal cord injuries• Moderate stroke• Some fractures, surgical procedures, and conditions where recovery is delayed	<ul style="list-style-type: none">• Heart attack• Heart failure• Minor stroke• Most cancers• Most fractures & joint replacements• Accidents & conditions where normal recovery occurs

WHO will need LTC varies with definition

Likelihood of needing long-term care for 65-year-old individuals and male-female couples

	Strict HIPAA criteria ¹	Less strict HIPAA criteria ²
Likelihood for individuals		
Man	51%	64%
Woman	61%	75%
Likelihood for male-female couples		
Man only	20%	16%
Woman only	30%	27%
Both	31%	48%
One or both (joint probability)	81%	91%
Neither	19%	9%

¹ Favreault MM, et al. Projections of risk of needing long-term services and supports at ages 65 and older. Urban Institute. January 2021, p.42. Likelihood based on strict HIPAA criteria, certified by health care provider.

² Johnson RW. What is the lifetime risk of needing and receiving long-term services and supports? ASPE Research Brief. Urban Institute. April 2019, p.19. Likelihood based on less strict HIPAA criteria: self-reported need for HIPAA-level care, but not certified by health care provider.

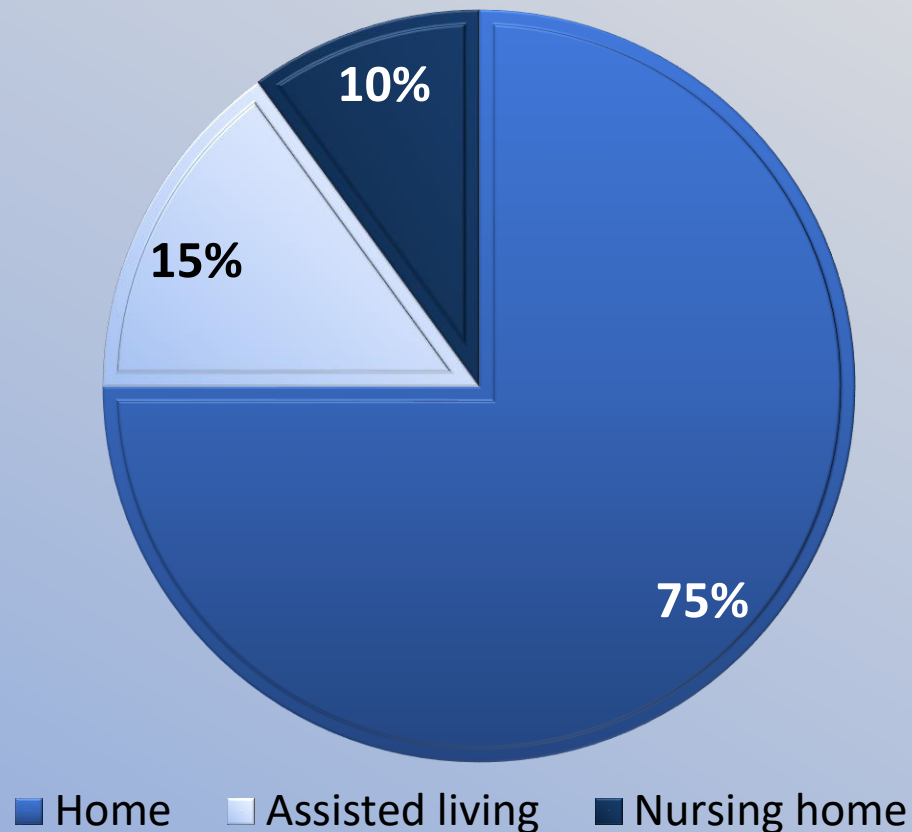
- For couples, one or both people (joint probability) need LTC in
 - Strict HIPAA criteria- 8 in 10 (81%) couples
 - Less strict HIPAA criteria- 9 in 10 (91%) couples

Points of engagement

- Even these projections underestimate likelihood of LTC because they don't include pre-HIPAA-level care
- Many people are still not concerned
 - They're in the "Goldilocks" phase of life where health, wealth, physical ability, and memory are "just right"

WHERE will LTC be provided?

Location of long-term care



Points of engagement

- Good news: most people will be cared for at home by their families
- Bad news: this caregiving model is changing
 - Declining caregiver support ratio
 - Elder orphans
 - Changing family structures
 - Club sandwich caregivers

Fewer caregivers: Declining caregiver support ratio

Caregiver support ratio

Number of potential caregivers in peak caregiving ages of 45 to 64 compared to number of people in peak care needing ages of 80 and older¹

- Today: 7 to 1
- 2030: 4 to 1
- **2050: 3 to 1**

Points of engagement

- When today's 50-year-olds reach age 80, dramatic decline in number of people who could provide LTC
- Those who need paid care will hire from smaller pool of caregivers who will earn higher wages (supply and demand)²
- Will they be able to afford it?

¹ Houser A, et al. Across the states: Profiles of long-term services and supports. AARP Public Policy Institute, August 2018

² Johnson RW, et al. The financial burden of paid home care on older adults: Oldest and sickest are least likely to have enough income. Health Affairs 2019.

Fewer caregivers: Elder orphans

Elder orphans

- Adult age 65 or older who lives alone
 - No spouse or partner, no children within 10 miles
- Why 10 miles?
 - When help is needed, it's often needed now, not when relative or friend has time to travel to care recipient's home
- More than 1 in 5 adults ages 65 and older could be elder orphans late in life

Points of engagement

- No one wants to be a burden on their family as they age
- Disturbing reality: elder orphans will receive care mainly from paid caregivers, not family members

Fewer caregivers: Changing family structures

Divorce, remarriage, cohabitation

Positives

- Extended families have more potential caregivers

Negatives

- Divorce and remarriage usually mean less support among stepfamilies
- Divorced fathers and grandfathers especially vulnerable

Points of engagement

- Extended families may provide less care because they don't see each other as kin
- Divorced fathers and grandfathers especially vulnerable

Fewer caregivers: Club sandwich caregivers

Sandwich generation

- Care over three generations
- Typically, young- and middle-aged adults “sandwiched” between caring for children and parents

Club sandwich generation

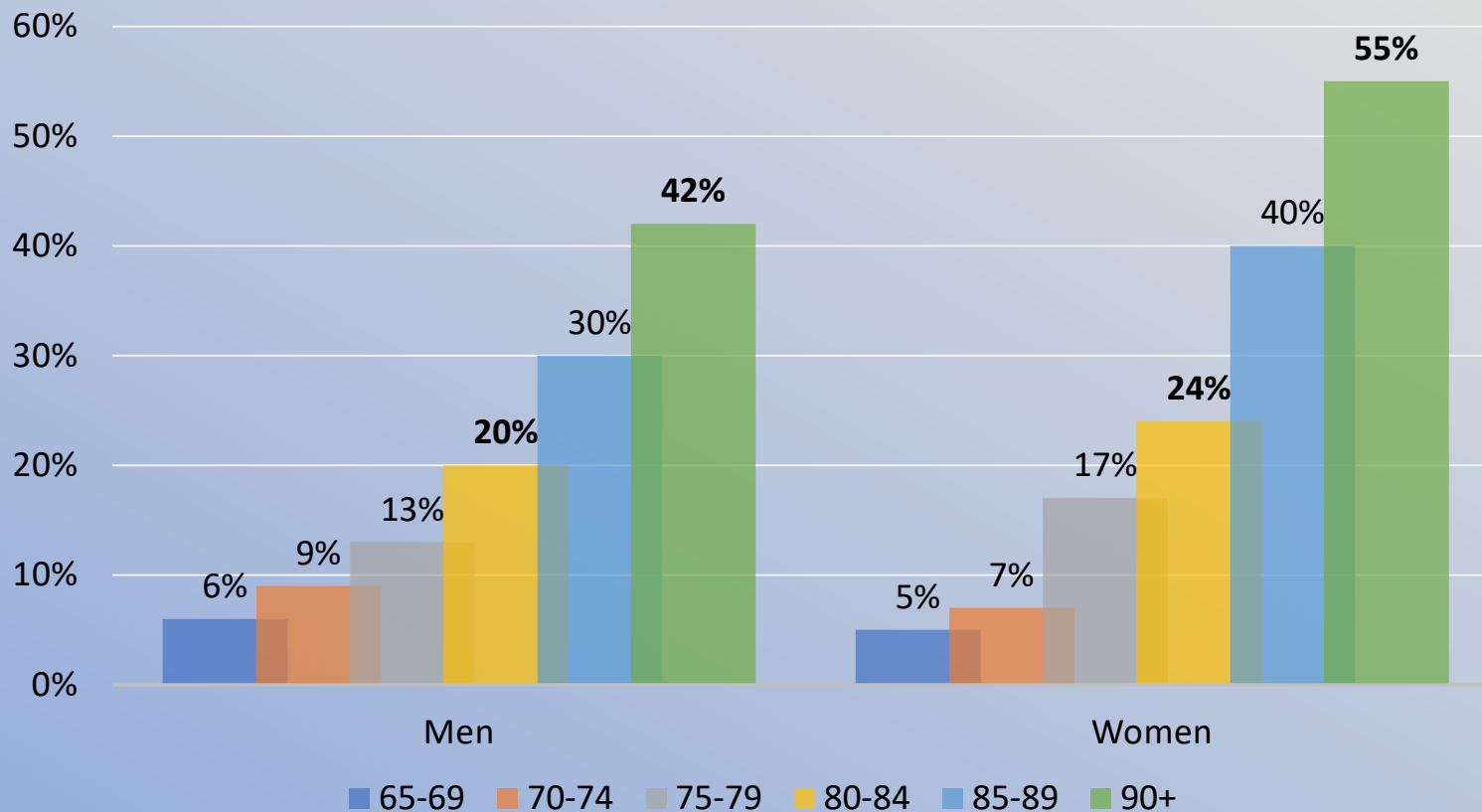
- Care over four generations
- Young couples caring for children and grandparent
- Retired grandparents caring for grandchildren and mother in her 90s

Points of engagement

- Most people haven’t heard of club sandwich caregivers
- Retired adult “child” caring for grandchildren and a 90-year-old parent is a real-life example of the future of caregiving

WHEN will we need LTC

Likelihood of needing long-term care, by age

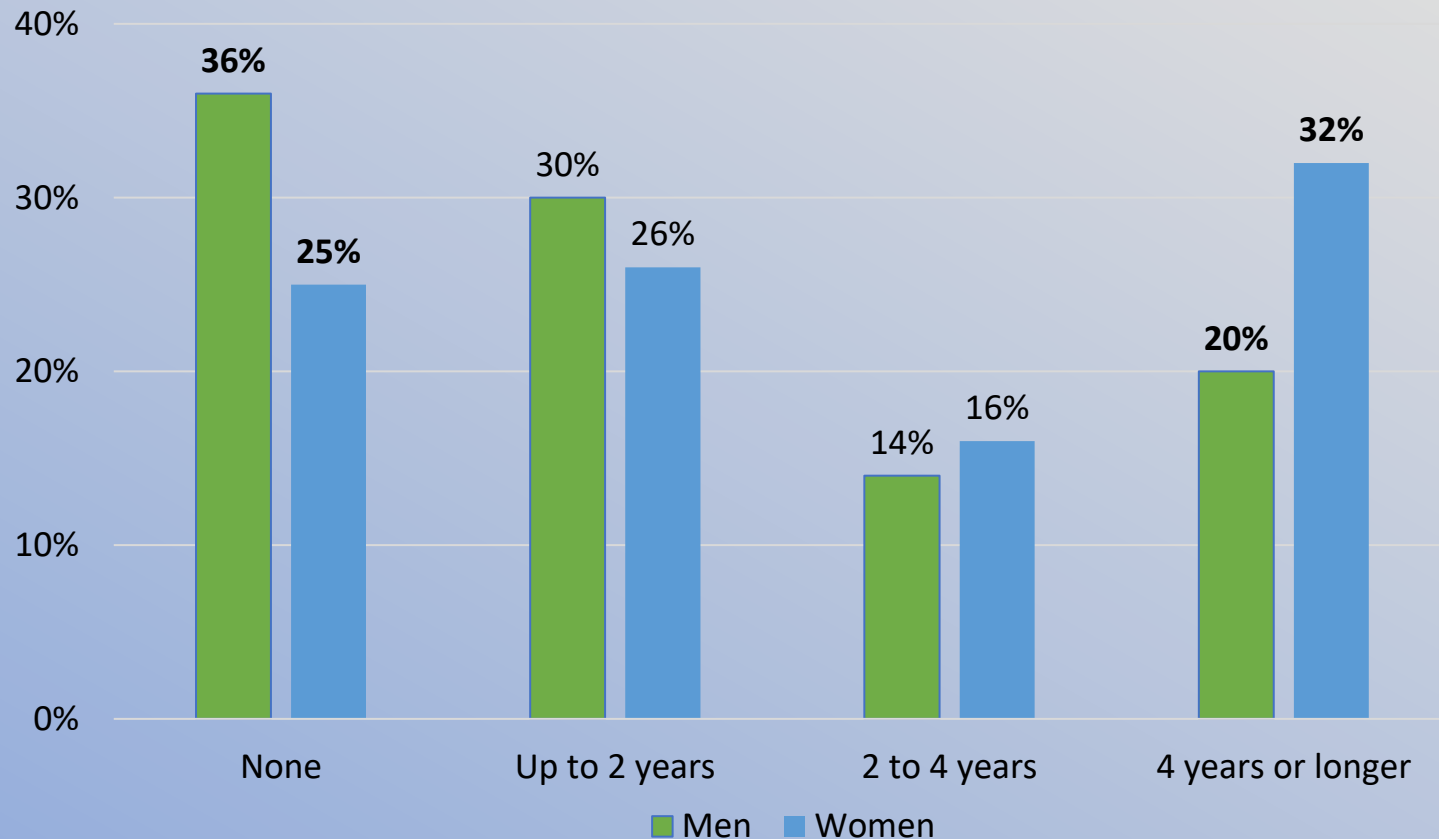


Points of engagement

- Risk of LTC increases with age, especially for women
- Healthy people don't necessarily avoid LTC; they may just postpone it to an older age

WHAT DURATION of LTC will be needed?

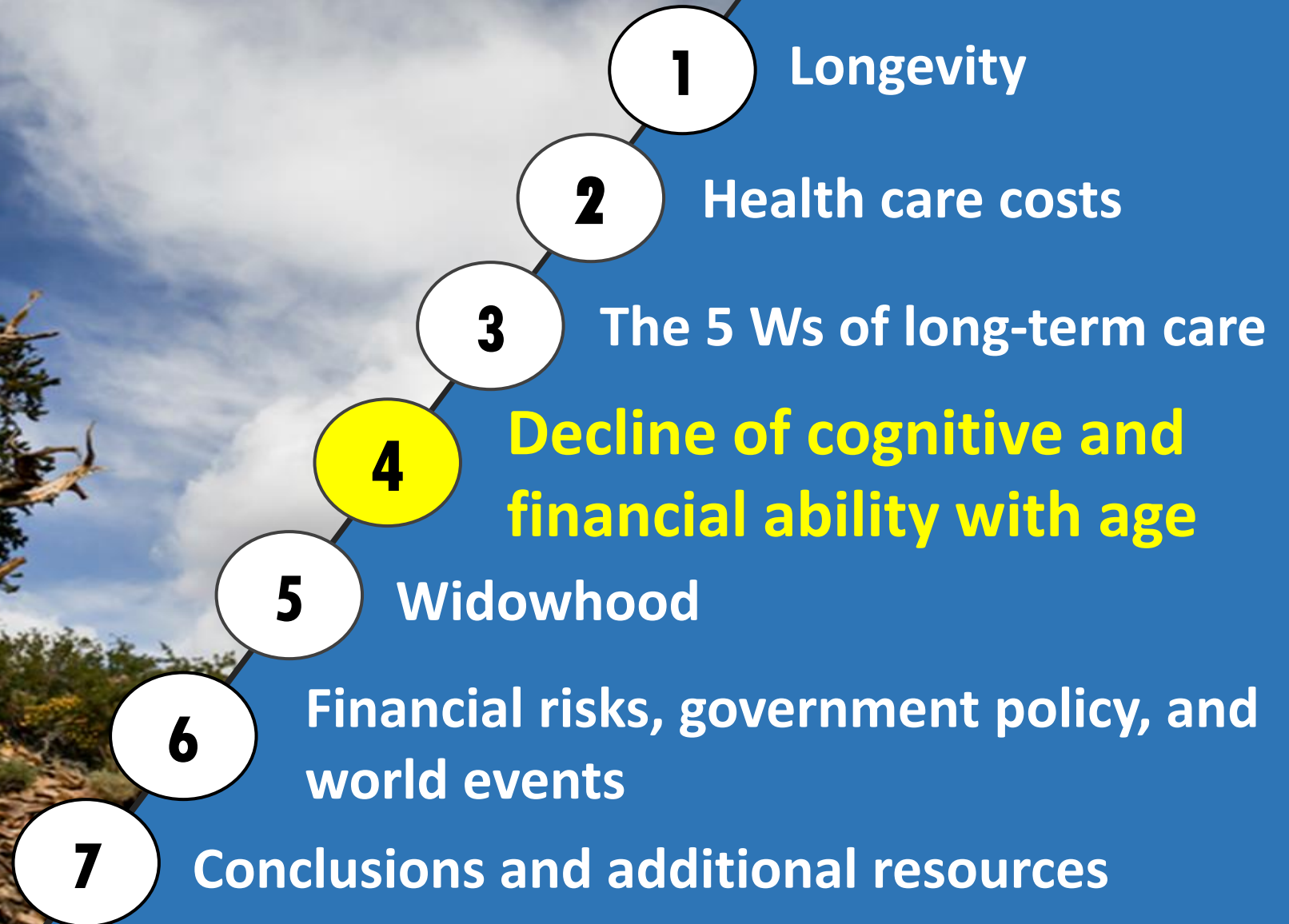
Duration of long-term care after age 65



Points of engagement

- Care duration highly variable and unpredictable
- 1 in 3 (32%) women, 1 in 5 (20%) men need care for 4+ years
- Women live longer, but are more often disabled
- Costs may be unmanageable if
 - LTC needed for many years
 - LTC needed late in life when costs have increased due to inflation

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“Nearly a third of adults 65 years and older suffer from mild cognitive impairment or dementia, climbing to over half by our mid-80s, most often from Alzheimer’s disease. Despite these sobering statistics, many of us view aging as optional, deferred with technology. We expect to work into our 80s, replacing our joints and our heart valves when necessary. Unfortunately, our brains can defy our wishes, often shrinking or shriveling despite our best efforts.”

- Gayatri Devi and Kirk R. Daffner, nationally recognized experts in neurodegenerative disorders

Important financial decisions, declining cognitive ability



Many of life's most important and complex financial decisions are made later in life

- Investing for a 30-year retirement
- Deciding whether to annuitize some assets
- Budgeting for health care and long-term care
- Wealth transfer to children and grandchildren
- Financial planning for widowhood

While these decisions are being made

- Cognitive and financial abilities are declining
- Many people continue to spend, invest, and plan as if nothing has changed
- Elder financial abuse and scams increase
- Suboptimal financial outcomes possible due to a decline in ability to make complex financial decisions



Basic vs. complex financial decisions



Basic financial decisions

- Balancing checkbook
- Cash transactions
- Paying bills
- Routine budgeting



Complex financial decisions

- Annuitization
- Financial planning
- Insurance
- Investing

Points of engagement

- **Basic financial decisions**
 - Usually unaffected by normal cognitive aging¹
 - Can often be made even with mild cognitive impairment and early dementia
- **Complex financial decisions**
 - Increasingly difficult at older ages,² even with normal cognitive aging
 - Risk of suboptimal financial outcomes

¹ Bangma DF, et al. The effects of normal aging on multiple aspects of financial decision-making. PLOS One. August 2017.

² Eberhardt W, et al. Age differences in financial decision making. Behavioral Decision Making. August 2018.

Study: Does financial literacy change over lifetime?

Study

3,873 people ages 24-94. 16 questions about borrowing, investing, insurance, and investment confidence

Question 1

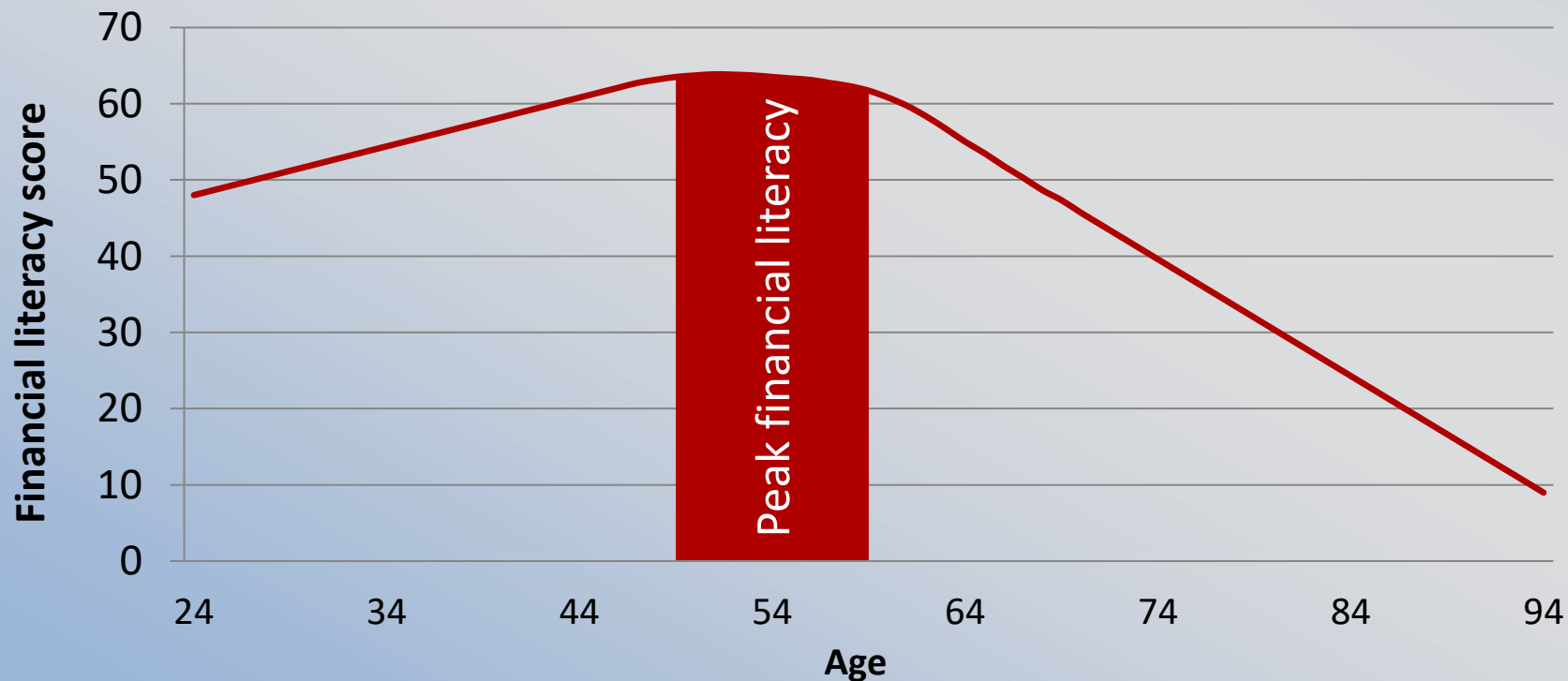
Does financial literacy change with age?
(Financial literacy and financial ability are closely related)

Question 2

Does confidence in financial decision-making ability change with age?

Major changes in financial literacy over lifetime

Change in financial literacy with age¹
Scores based on all study participants: men, women,
all levels of education and financial experience



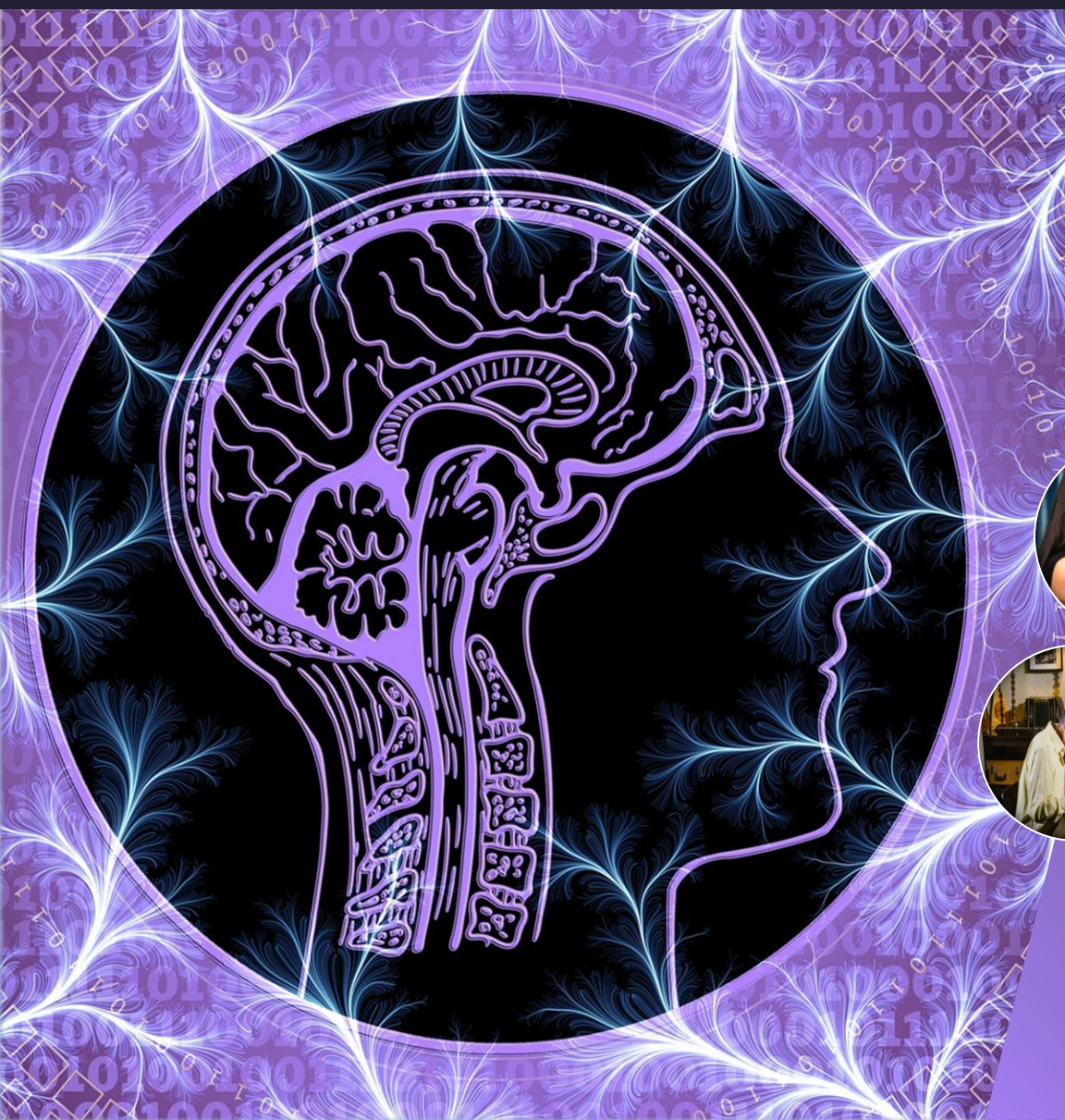
Points of engagement

- Financial literacy
 - Peaked around age 50
 - Level from 50 to 60
 - Declined after 60
- Another study: financial ability peaked at age 53²

¹ Finke MS, et al. Old age and the decline in financial literacy. Management Science. January 2017.

² Agarwal S, et al. The age of reason. Brookings Papers on Economic Activity. 2009.

“I don’t need to worry about financial decline because ...”



I’m very well educated



I’m a man who takes care of family finances



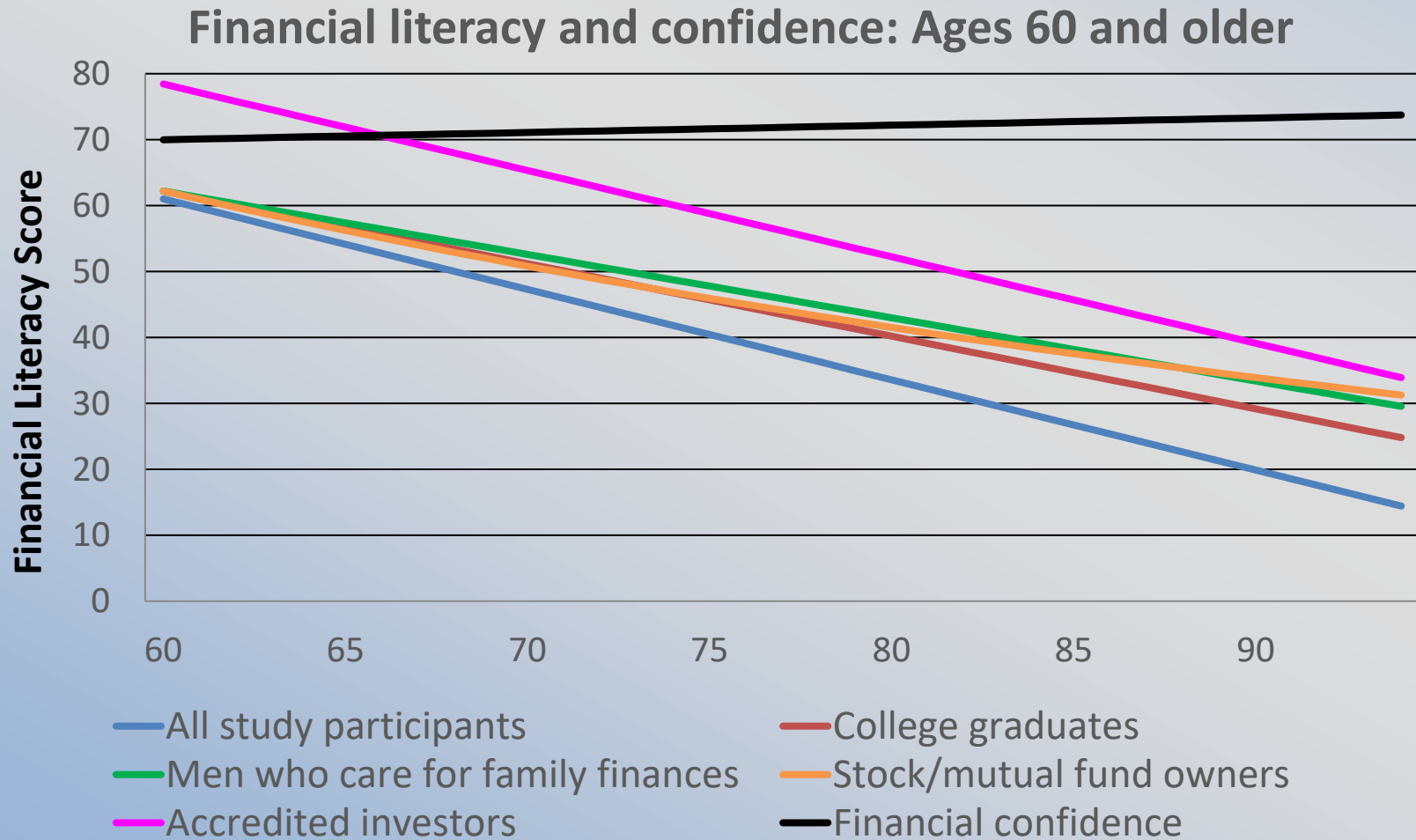
I have experience with stocks, bonds, and investing



I’m an accredited investor*

* Individuals permitted to invest in funds or investments not registered with the SEC, including private equity, venture capital, and hedge funds. Requirements: annual income of \$200,000+ or net worth \$1 million+ (excluding primary residence) or having a Series 7, 65, or 82 license

Financial literacy declines in everyone after 60



Points of engagement

- At ages 60+, literacy scores declined and financial confidence increased in everyone^{1,2}
- Accredited investors ages 80+ had lower scores than non-accredited investors in their 60s²
- “Much of the decline in financial capability in old age appears to be due to age-related cognitive decline”²

¹ Finke M, et al. Old age and the decline in financial literacy. Management Science. January 2017.

² Finke M, et al. The unsophisticated “sophisticated”: Old age and the accredited investors definition. Financial Planning Review. May 15, 2021.

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Widowhood is common, often lasts a long time

Likelihood of widowhood			Duration of widowhood		
Age	Men	Women	Duration	Men	Women
65-74	1 in 16	1 in 5	5 years or more	2 in 3	3 in 4
75-84	1 in 7	2 in 5	10 years or more	2 in 5	Half
85+	1 in 3	3 in 4	15 years or more	1 in 5	3 in 10
--	--	--	20 years or more	1 in 10	1 in 7
Roberts AW, et al. The population 65 years and older in the United States: 2016. American Community Survey Reports. October 2018.			2012 Individual Annuitant Mortality (2012 IAM) Basic Table. Society of Actuaries. This is the most recent individual annuity table.		

- Widowhood increases rapidly after age 75
- At 85+, 1 in 3 men, 3 in 4 women are widowed
- 2 in 5 men, half the women are widowed for 10 years or more

Widowhood: Points of engagement

- Expenses may increase
 - Need to hire out tasks formerly done by deceased spouse
 - Widow's tax penalty- Survivor now pays income tax, Social Security tax, and IRMAA as an individual, not as a couple
- Nest egg may decrease due to health care costs and LTC in deceased spouse
- Income may decrease
 - Less return on smaller nest egg
 - Lower pension and Social Security benefit compared to couple
- Risk of elder financial abuse and scams increases
 - Cognitive and financial ability decline for rest of life
 - If deceased spouse handled finances, survivor often unfamiliar with household finances
- Because surviving spouse no longer has a spousal caregiver, survivor has a higher likelihood of needing
 - paid home care
 - assisted living
 - nursing home care

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Conclusions and additional resources

Inflation

Effect of inflation on the cost of food, medical care, and LTC over a 30-year retirement

	CPI ¹	Medical care ²	Long-term care ³		
Age	\$100 of food	\$1000 of medical care	1 hour of home health care	1 year in assisted living	1 year in nursing home
	Inflation rate: 2.55%	Inflation rate: 4.69%	Inflation rate: 3%	Inflation rate: 3%	Inflation rate: 3%
65	100	1,000	27	54,000	108,405
70	113	1,258	31	62,601	125,671
75	129	1,581	36	72,571	145,687
80	146	1,989	42	84,130	168,891
85	165	2,501	49	97,530	195,791
90	188	3,145	57	113,064	226,976
95	213	3,955	66	131,072	263,127

¹ Consumer Price Index based on 10-year CPI inflation estimate from 2021 to 2030. Fourth Quarter 2021 Survey of Professional Forecasters. Federal Reserve Bank of Philadelphia.

² Medical care experienced an average inflation rate of 4.69% per year from 1935 to 2021. Official Data Foundation / Alioth LLC [Accessed February 9, 2022].

³ Genworth Cost of Care Survey 2021. Genworth Financial, Inc.

Investment risk / sequence of returns risk

50-year annualized return (nominal, not adjusted for inflation) of the S&P 500



- Investment risk: Chance that portfolio returns differ from what is expected
- Sequence of returns risk: Longevity of portfolio could be significantly reduced if (a) market declines shortly before or after retirement, and (b) ongoing withdrawals are made from portfolio, especially if combined with rising inflation

Taxes

Fiscal challenges

- “Growing deficits are projected to drive federal debt to unprecedented levels over the next 30 years”*
- Main drivers of increased spending: Social Security, Medicare, interest on federal debt
- “Over next 30 years, the largest source of growth in tax revenues is real bracket creep”* (inflation pushes taxpayers into higher tax brackets)

Government options

- Decrease spending
 - Reduce Social Security and Medicare benefits
- Increase revenue
 - Bracket creep
 - Increase income, capital gains, and corporate tax rates
 - Lower gift and estate tax exemptions
 - Increase net investment income tax
 - Tax surcharge on high-income individuals, estates and trusts

* The 2021 Long-Term Budget Outlook. Congressional Budget Office. March 2021.

Social security

Fiscal challenges

- Underfunded
- Demographics
 - More older people who are living longer
 - Declining ratio of workers paying taxes to support each beneficiary
- Current system favors higher earners because they live longer

Government options

- Increase revenue
 - Increase Social Security payroll tax rate
 - Raise / eliminate cap on wages subject to Social Security payroll tax
- Decrease spending
 - Index Full Retirement Age (FRA) to increases in life expectancy
 - Use different cost-of-living annual adjustment (COLA)
 - Lower formula that indexes future benefits to lifetime earnings
 - Decrease spousal and survivor benefits for high-income households
 - Decrease delayed retirement credit
- Redistribute benefits
 - Raise benefits for lower earners, lower them for higher earners

Steuerle CE, et al. Trickle-down Social Security: How failure to adjust retirement age for longevity favors those with higher incomes. Urban Institute. October 2021.

Reznik GL, et al. Changing longevity, Social Security retirement benefits, and potential adjustments. Social Security Bulletin, Vol. 81, No. 3, 2021.

Steuerle CE, et al. First things first: how Social Security reform can eliminate old-age poverty. Urban Institute. February 2021.

Medicare

Fiscal challenges

- Underfunded
- Demographics
 - More older people who are living longer
 - Declining ratio of workers paying taxes to support each beneficiary
- Rising per-person health care costs
- Lower-income beneficiaries who do not qualify for Medicaid often need to delay care or can't pay for care
- Expensive treatments threaten affordability and sustainability of Medicare

Government options

- Decrease spending
 - Raise age of Medicare eligibility
 - Reduce benefits
 - Shift more costs to beneficiaries
 - Lower reimbursement to healthcare providers
- Increase revenue
 - Increase copayments, coinsurance, deductibles
 - Increase Medicare payroll tax
 - IRMAA
 - Increase IRMAA premiums
 - Freeze IRMAA thresholds so they don't increase with inflation

Unpredictable world events with financial implications

Important world events in the last 120 years, divided into four 30-year periods of retirement

1902-1931	1907 Panic of 1907	1912 Titanic sinks	1914 WWI	1917 Russian communist revolution	1918 Spanish flu	1920 Prohibition in U.S.	1929 to 1941 Great Depression			
1932-1961	1933 Adolph Hitler elected	1939 WWII	1941 Pearl Harbor	1946 Cold War	1949 Chinese communist revolution	1950 Korean War	1950 to 1970 Golden age of U.S. economy			
1962-1991	1962 Cuban missile crisis	1968 Vietnam War	1973 OPEC Oil crisis	1979 Three Mile Island accident	1980 Early 1980s recession	1981 AIDS in U.S.	1986 Chernobyl nuclear disaster	1987 Black Monday crash	1988 Savings and loan crisis	1991 Gulf War
1992-2021	1992 Japanese bubble bursts	1997 Asian financial crisis	2000 Dot-com crash	2001 9/11 terrorism attack	2003 Iraq War	2008 Great Recession	2011 Fukushima nuclear accident	2014 Russia invades Ukraine	2016 Brexit	2020 COVID
2022-2051	Famine?	Financial crises?	Global warming?	Natural disasters?	Nuclear accidents?	Over-population?	Pandemic?	Solar storms?	Terrorism?	Wars?

Points of engagement

- Inflation
 - Decreases purchasing power during retirement, especially for health care and LTC
 - Becomes more important with long durations of retirement
- Investment risk / sequence of returns risk
 - Unpredictable
 - Timing of market downturns can have a significant effect on nest egg and other investments
- Taxes, Medicare, Social Security
 - Fiscal challenges are increasing the likelihood of higher taxes and/or reduced spending on entitlement programs
- World events
 - Unpredictable events can disrupt financial markets and retirement planning

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Conclusion



Risk

Retirees face a multitude of health and financial challenges whose timing and severity are generally unknown



Result

After decades of retirement, some nest eggs may no longer support desired lifestyles and bequests



Options

(a) Fund nest eggs to withstand the unexpected, and (b) structure bequests so they occur even if nest egg is depleted



Get help

Financial professionals can help plan for risks that occur throughout retirement

Additional resources

1. Pokorski R. Life expectancy in the U.S. finally increases! LinkedIn. February 5, 2020.
2. Pokorski R. Plan for the expected: Financial support of aging parents and adult children. LinkedIn. February 12, 2020.
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