



Gimme Shelter

The Biggest Oversight in Retirement Planning

BY GARY KLEINSCHMIDT

It happens all the time. Whenever my colleagues or I ask a room full of financial advisors, “Show of hands — how many of you have personally had to arrange care for an aging loved one?” hands shoot up across the room. In some cases almost everyone in the room raises a hand, and many seek us out after our meetings to share their personal stories.

Sound familiar? It should. Legg Mason recently conducted a survey of more than 500 financial advisors on this topic, and what we found validated our experience: 71% of financial advisors reported that they have been involved with organizing care for an aging parent, grandparent or loved one.

And it’s only going to get worse. Longevity is here — it’s not a concept under consideration. We are living longer. The data proves it out — according to the Federal Interagency Forum on Aging-Related Statistics, “Americans are living longer than ever before. Life expectancies at both age 65 and age 85 have increased. Under current mortality conditions, people who survive to age 65 can expect to live an average of 19.2 more years, nearly 5 years longer than people age 65 in 1960.” (*Older Americans 2012*, Federal Interagency Forum on Aging-Related Statistics, August 2012.)

And the forecasted growth in the older population in the U.S. is staggering. According to the report, “In 2010, 40 million people age 65 and over accounted for 13% of the total population in the United States. In 2030, the number and proportion of older Americans is expected to grow significantly — to 72 million, representing nearly 20% of the population.”

As a result — and perhaps also driven in part by the federal government’s focus on providing health insurance to all Americans — we are more frequently factoring the cost of health care into the retirement discussion. It’s a healthy shift in a discussion that not so long ago was focused on “the number” that plan participants might need to achieve in order to enjoy a dream retirement. Today, discussion is focusing more on a realistic view of retirement — we call it “*REALtirement*.”

However, the increasing focus on health care is overshadowing a very tangible and personal challenge that needs to move front and center in the *REALtirement* planning discussion. It’s a challenge that has enormous financial implications: the choice and expense of long-term housing in retirement.

When we talk to advisors at our meetings, the stories we hear frequently focus on this challenge. They are fraught with frustration and anxiety — an aging parent or loved one is suddenly incapacitated and overnight the home they lived in for so many years is too dangerous. They urgently need to make a choice: undertake a costly home renovation and bring in professional care givers, or relocate to assisted living or long-term care facility? If long-term care is the right choice, where should they go, and how much will it cost? And in any scenario: How in the world are they going to afford it?

We believe in the words of John Stuart Mill, who said: *There are many truths of which the full meaning cannot be realized until personal experience has brought it home.*

In other words, if your plan participants have personal experience as a care giver, much in the same way that you and your peers have experienced, chances are they will be inclined to take action now to make sure their own long-term housing financial challenges are taken care of well before they face a crisis. This translates into a very good

TIPS ON PLANNING FOR HOUSING

To obtain a copy of the Legg Mason brochure: *Aging and Its Financial Implications: Planning for Housing*, please visit www.leggmason.com/aging/. For a full set of advisor resources, visit <http://www.lmtapp.com> and look for the aging program content by going to Business Building>Business Development>Wealth Management>Aging.

reason to save more during the accumulation phase of their lives.

How Well do You Know the Subject of Aging?

The discussion about housing in retirement starts with an understanding of aging. Before you embark on the housing discussion it will be helpful for you to understand the myths of aging and be able to use these points in your discussion.

Working with The Center for Innovative Care in Aging at the Johns Hopkins University School of Nursing, we compiled a list of myths about aging that you need to know. You can share the list with your clients via our booklet, *Aging and its Financial Implications: Planning for Housing* (see sidebar). Some of the myths, along with the realities, are provided in Fig. 1.

The Costs of Housing in Retirement

Your plan participants may not be ready to make their choice when it comes to their long-term housing needs in retirement, but it’s critical that they understand the options — especially the costs associated with those options — in order to factor this challenge into their long-term plans.

It’s common for people to want to age in place — to live out their days in the home where they built their memories and are most comfortable. Aging in place typically requires one to be in good health, be part of a social network and have local family support, live in a home with a favorable floor plan and have the ability to drive and/or have access to transportation. Unfortunately, it’s impossible to predict whether an accident or illness might come along and change any or all of these considerations — as it so often does.

The costs of aging in place can be signif-

“In the words of John Stuart Mill, *There are many truths of which the full meaning cannot be realized until personal experience has brought it home.*”

icant as well. These include modifications required for a home to accommodate an elder occupant — ramps, widened doorways and more — and the need to pay for a wide variety of services that could be required, such as in-home care providers, transportation services, gardening and home repair.

Frequently, the choice is made to consider long-term housing options based on short- and long-term needs. It’s important to understand the extensive economic considerations that accompany each level of housing options. Working with The Center for Innovative Care in Aging, we created a chart (see Fig. 2) that provides important data to illustrate to your plan participants the urgent need to start saving more now.

According to the longevity forecasts mentioned above, more and more Americans will be living in retirement 20 years or more. Someone living in an assisted living facility at age 65 may require at least \$834,000 ($\$3,477 \times 12 \text{ months} \times 20 \text{ years}$) to cover just rents at *today’s rates* — with-

FIG. 1. MYTHS AND REALITIES OF AGING

Myths	Reality
Dementia is an inevitable part of aging.	Dementia is a progressively degenerative disease and is not a normal part of aging. While age is the most significant risk factor, it is not an inevitable part of aging. Approximately 13% of adults age 65 years and older have Alzheimer's or another form of dementia and about 45% of those age 85 years and older have some dementia symptoms.
Older adults become more rigid in their thinking and are unable to learn or change.	Learning patterns do change with age and it may take a bit longer to learn something new. Older adults do not become more rigid, and the basic capacity to learn is retained.
Older adults are alone or lonely, they have been abandoned by their families.	While the number of casual friends may decrease as a person ages, the number of close friends remains stable throughout one's life. 80% of parents over the age of 65 see adult children every one to two weeks; 75% of grandparents see their grandchildren every one to two weeks.
Older adults are in poor health.	More than 76% of older adults describe themselves as being in good, very good or excellent health despite having an average of two or more chronic conditions.
Lifestyle changes late in life have no effect on older adults' health and well-being (e.g., begins exercise, quits smoking).	Lifestyle changes including exercise, diet, sleep and other health promoting behaviors can positively affect an older adult's well-being regardless of age. Older adults who exercise are able to better fight chronic disease.
As age increases, older adults become withdrawn, and inactive, and cease being productive.	While older adults are not in paid employment, many have important roles as grandparents, caregivers, volunteers, and participate in civic and social activities.
Older adults are more likely to become clinically depressed.	Most older adults are not depressed. Depression is not a normal part of growing old but rather an illness that needs to be treated.
With age, older adults lose individual differences and become progressively more alike.	The opposite is true. Individual differences appear to increase with age. There is more variety among older adults than among any other age group.
Most older adults live in poverty.	Only 9% of older adults live in poverty; 26% of older adults are considered low income.
With age, most older adults become helpless and cannot take care of themselves.	About 27% of older adults over 65 report difficulty in performing one or more activities of daily living. Individuals over 85 or 90 may need some help with some activities, such as shopping, carrying heavy packages and taking out the garbage.
Older adults are an economic burden on society, and this takes away resources from the young.	Improving the quality of life for older people benefits all age groups. Additionally, many older adults transfer financial and caretaking resources to younger generations. Spending on appropriate services for older people can save money by increasing their mobility, reducing the need for additional care, and reducing hospital and nursing home admissions — all costs to society.
Falling is normal with advanced age.	Almost one-third of older adults experience a fall every year. However, falling is not a normal part of aging. Falls can be minimized by addressing risk factors such as removing tripping hazards in the home, monitoring medications, and enhancing balance and mobility.

Footnotes

1. *Few Plan for Long-Term Care Though Most will Need It*, Harvard Health Publications, May 06, 2013
2. *Long-Term Care Needs: Two-Thirds Of Americans Over 40 Are In Denial*, Associated Press, April 24, 2013

out factoring in escalation or inflation.

Someone with more acute needs who might require continuing care when they turn 75 can expect to pay almost \$700,000 (\$5,800 x 12 months x 10 years) between 75 and 85. (It's important to note that the costs are based on nationwide averages and may be more or less depending on where your clients live. Information on state-specific costs is referenced through a third party resource in a Legg Mason brochure, *Aging and Its Financial Implications: Planning for Housing* — see sidebar on page 23.)

Granted, some of these expenses may be offset under various health or long-term care insurance policies your plan participants can acquire. But chances are that your plan participants are not acting to prepare, even though so many have first-hand experience as caregivers: Fewer than 3% of American adults have purchased a long-term care insurance policy.¹

In fact, according to a poll conducted by the Associated Press and the NORC Center for Public Affairs Research, just 8% of 40- to 54-year-olds have done much planning for long-term care. This, despite of the fact that, according to the survey, “more than half of the 40-plus crowd already have been caregivers for an impaired relative or friend — seeing from the other side the kind of assistance they, too, are likely to need later on.”²

Plan Advisors' Insights

In speaking with a number of plan advisors at a recent Legg Mason event, we learned that financial planning for housing in retirement is becoming increasingly important — and abundantly personal.

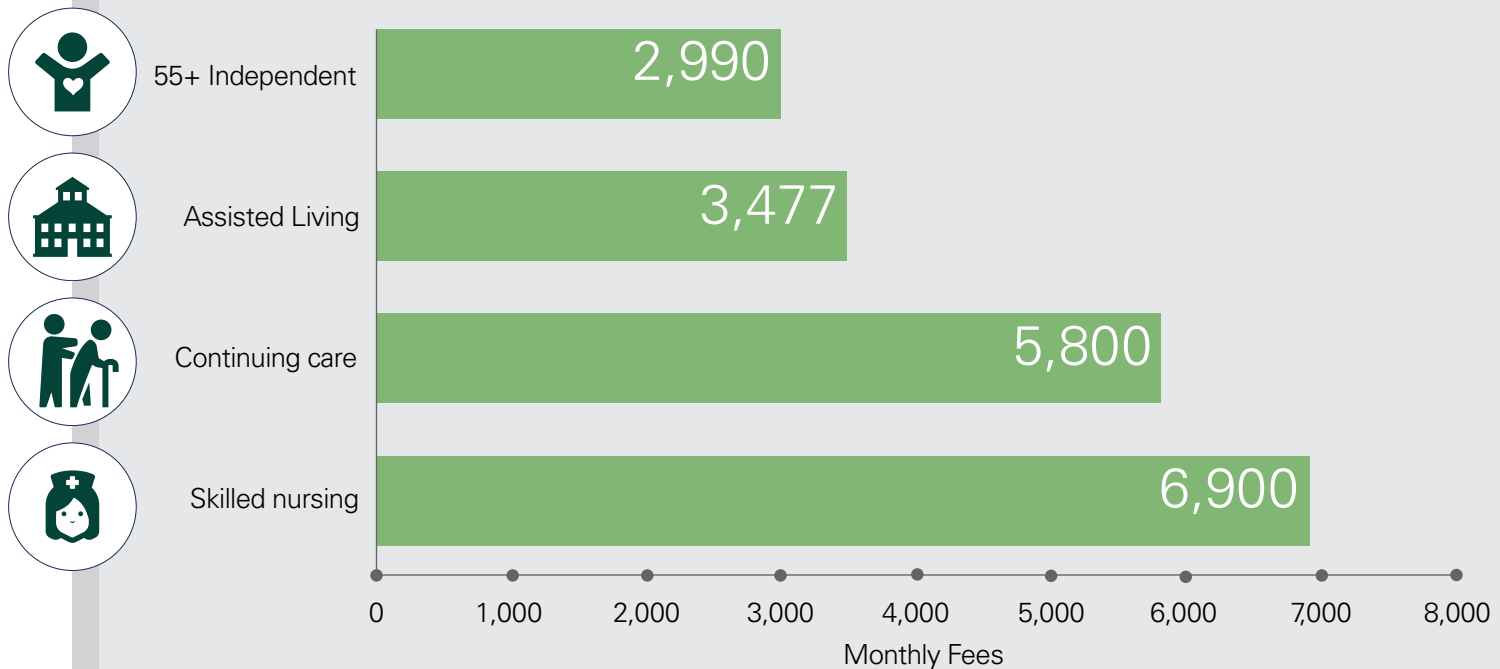
“My clients are plan participants who are still working but they're dealing with their aging parents or loved one facing this challenge, and they are being forced to look at it,” said Gerald Wernette of Rehmann Financial. “But it also forces them to think about how well they are planning to handle the same issues later in their own lives. Being able to help them plan now for the costs of long-term housing is vital; it needs to have a more prominent place in the retirement planning discussion.”

He added: “You hear about people having bad experiences in nursing homes and facilities and it's sad. Clearly no planning was done before they faced that stage

FIG. 2. HOUSING OPTIONS



Cost comparison of senior housing options¹ (\$)



¹ Source: The comparison of senior housing options was made by comparing the midpoint of housing cost estimates provided from sources including The Center for Innovative Care in Aging at the Johns Hopkins University School of Nursing. The price ranges shown reflect averages of minimum and maximum rates, which vary widely by place and are subject to change at any time. Doesn't take into account equity buy-in fees, which averaged \$248,000 in 2010.

of their lives. How many times have we heard 'my parent is not going to one of those places?' It underscores the need to look at this issue early on." (*Long-Term Care Needs: Two-Thirds Of Americans Over 40 Are In Denial*, Associated Press, April 24, 2013.)


"Planning for their parents should translate instantly into planning for themselves," says Scott Sides of RBC Wealth Management. "I also see great benefit to elevating this discussion to the HR executives at our clients — they are facing this challenge across their workforce. If we can help them address it with good answers, tools and a greater understanding, we all benefit."

"We're looking at retirement readiness now as our focus," said Janice Cackowski of Chapman and Chapman, Inc. "We're not focusing on the 'big number' but trying to help plan participants look at their balances based on what they will generate on a monthly basis going forward. Income replacement is our big focus. Long-term housing has not been a prominent part of the discussion, but now I believe it absolutely needs to be."

Income replacement can also be a key differentiator for advisors. "Bringing a focus on this unique aspect of aging and retirement could give us a real competitive advantage, especially when it comes to retention," said David Marshall of Robert W. Baird and Co. "We focus a lot of our discussion on Social Security provisions — this takes the discussion to the next level — how do they plan for this when it's not covered?"

A focus on plan design using auto enrollment and auto escalation are critical to generating increased enrollment and higher plan contributions. Enhancing your participant education program with stories that resonate from participants' personal experiences — particularly stories that strike an emotional chord — can increase your chances of focusing participant attention on the need to act.

In this period of increasing longevity, it's a safe bet that more people will be touched by housing challenges eventually. We believe it's time to move the discussion of housing in retirement front and center in the overall *REAL*irement saving and planning discus-

sion you're having with plan sponsors and plan participants. It's tangible, it's personal, it's urgent — and it might motivate your clients to save more. 

» Gary Kleinschmidt is the head of retirement field sales for Legg Mason. He is responsible for increasing the firm's presence in the DCIO market, and oversees the retirement field sales force in developing and implementing strategies to market and distribute a broad range of investment products managed by Legg Mason affiliates.

All investments involve risk, including loss of principal.

Legg Mason, Inc., its affiliates, and its employees are not in the business of providing tax or legal advice to taxpayers. These materials and any tax-related statements are not intended or written to be used, and cannot be used or relied upon, by any such taxpayer for the purpose of avoiding tax penalties or complying with any applicable tax laws or regulations. Tax-related statements, if any, may have been written in connection with the "promotion or marketing" of the transaction(s) or matter(s) addressed by these materials, to the extent allowed by applicable law. Any such taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

© 2014 Legg Mason Investor Services, LLC. Used by permission.

Member FINRA, SIPC. Legg Mason Investor Services, LLC is a subsidiary of Legg Mason, Inc.
FN1410391