

Retirement Spending Considerations: Healthcare & Long Term Care

2017



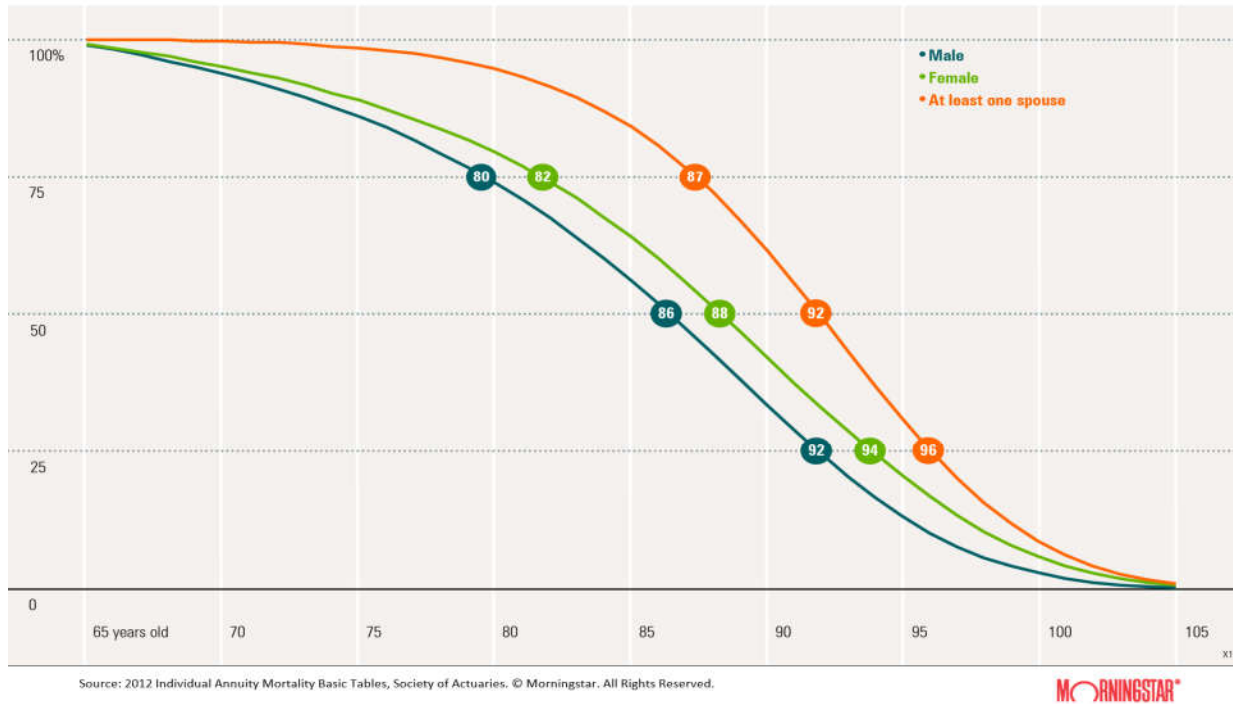
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Investment advisory and financial planning services offered through Candor Asset Advisors, LLC, a registered investment advisor.

Longevity Risk

Most couples should base their financial plan based on living into their late 80s to late 90s

Retirees Should Plan for a Long Retirement
Probability of a 65-year-old living to various ages



Longevity risk is the possibility that a person will outlive his or her retirement savings. While living longer is a good thing, it can pose some challenging financial issues in retirement. Longevity risk is perhaps one of the biggest risks that investors will face as they enter retirement. Accounting for longevity risk in retirement planning is more important than ever because people today are living significantly longer than prior generations, due to advances in medicine, diet, and technology. This risk is compounded by medical and healthcare expenses that are rising considerably faster than the rate of inflation.

Most people underestimate how long they are likely to live. Too often, people base their financial planning upon their life expectancy, which is the average age at which someone is expected to die. In the United States, the median life expectancy of a 65-year-old man and woman is 86 and 88, respectively. What people do not always realize is that this is the median. Half of the population will live longer, often much longer than their life expectancy.

Source: Morningstar, Society of Actuaries 2000-2004 & 2012 Studies

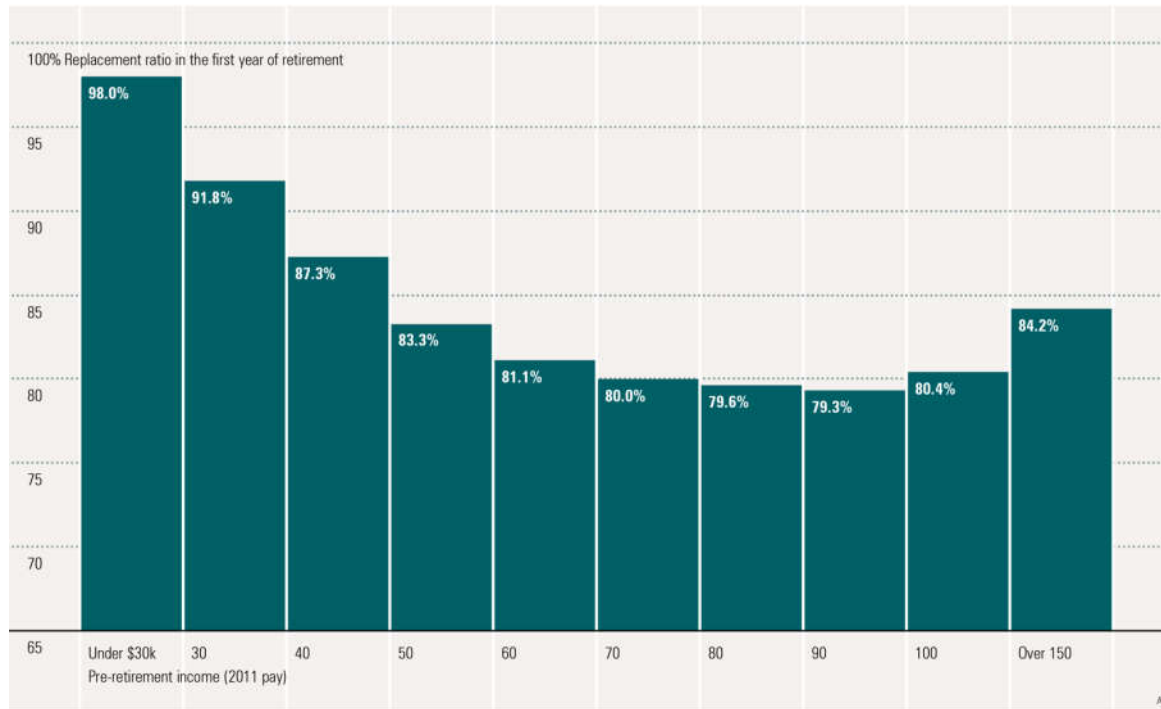
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It is often prudent to use conservative mortality assumptions to ensure you do not run out of money before you die.

Spending risk

Studies suggest retirees need to replace 75-90% of their pre-retirement income

Retirees Need to Replace a Significant Amount of Income in Retirement Replacement ratios at various pre-retirement income levels



Data is from Aon Hewitt's "The Real Deal: 2012 Retirement Income Adequacy at Large Companies" study. © Morningstar. All Rights Reserved.



The replacement ratio calculates the percentage of pre-retirement gross income needed in retirement to cover expenses and maintain a pre-retirement standard of living.

A common replacement ratio used for planning purposes is 70-90% of pre-retirement income.

For example, if an investor had a gross income of \$150,000 before he or she retired, an 84.2% replacement ratio would equate to \$126,300 of income needed in the first year of retirement.

The sources of income that support the spending needs will then need to be identified: how much will income will come from Social Security, pensions, part-time employment and a retiree's investment portfolio?

Some retirees' replacement ratio may be greater than 100% due to travel, recreational activities, or healthcare expenses. Replacement ratios of 130% or more are not uncommon in retirees' early years. People with spare time often find it easy to spend.

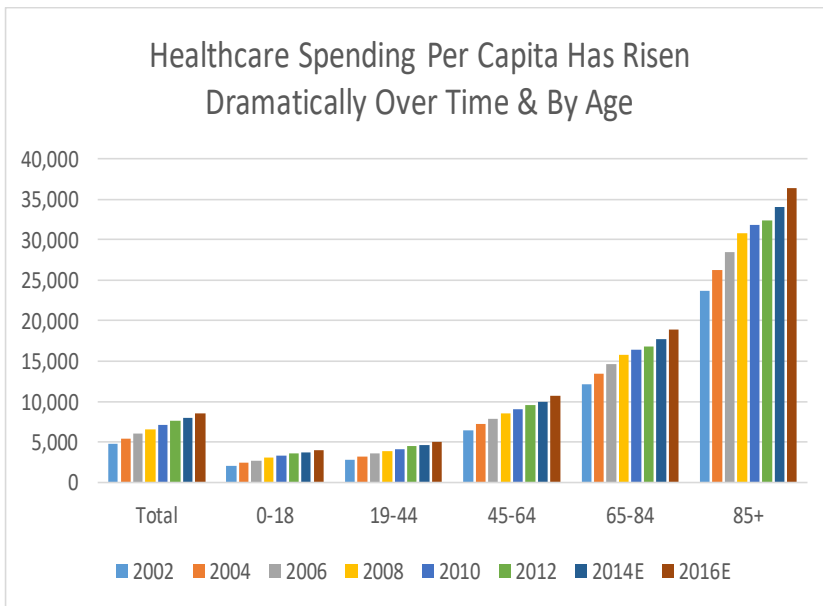
Source: Morningstar, Aon Hewitt 2012 Retirement Study

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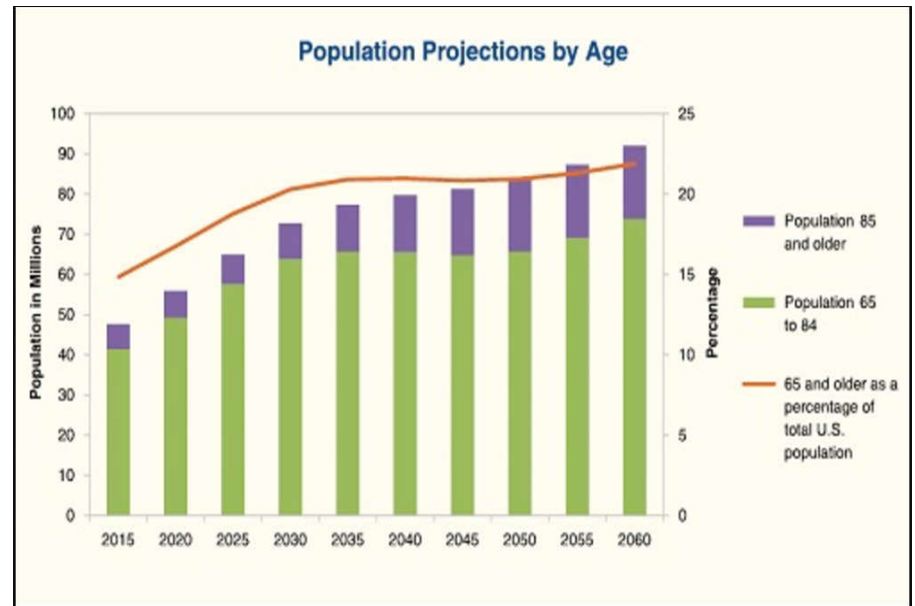
Spending risk

Healthcare expenses rise dramatically as you age. An aging population will likely cause growing financial strain on the US economy.

The average healthcare spending rises from ~\$5,000 for ages 19-44, ~\$11,000 by ages 45-64, ~\$19,000 by ages 65-84 to ~\$36,000 by age 85+



A greying population will cause healthcare spending to continue to rise. The population over 65 will rise from ~15% to 22%.



Source: Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, US Department of Housing and Urban Development

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Spending risk

Rising healthcare costs

Obesity, diabetes and chronic heart disease are very costly

The Medical Costs of CHD and Obesity

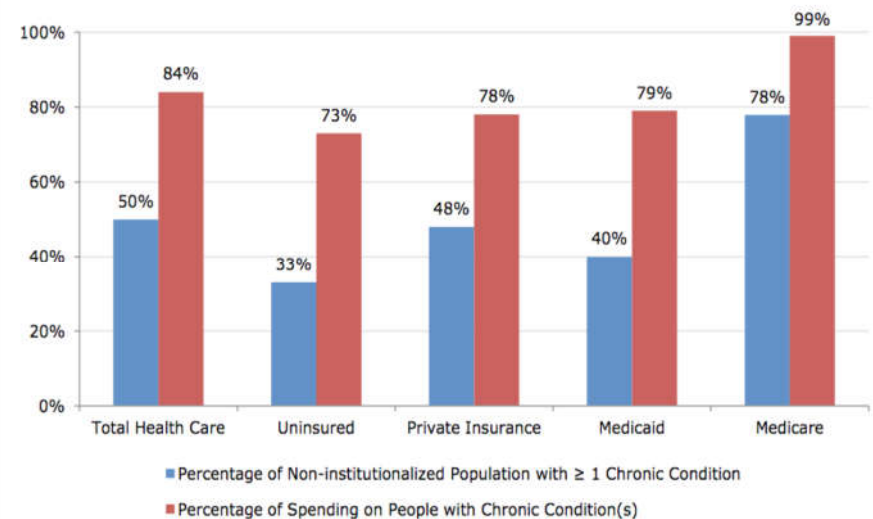
•Table 1 – Estimated Annual Excess Healthcare Costs of Chronic Conditions and Total Cost of Normal Weight Individuals: United States, 2020-2050. Combined Results of Men and Women.

- National Health and Nutrition Examination Survey – shows overweight adolescents likely to become overweight.
- Calculates potential, additional costs per year, per person.
- Estimates for direct (healthcare) and indirect (sick and disability leave).
- Economic costs, health and productivity factors all influenced.

Age, y	Obesity, \$	Diabetes, \$	CHD, \$	Total Cost Normal Weight, \$
35-44	438	7,380	24,408	7,411
45-54	426	9,828	31,893	9,949
55-64	430	9,828	32,994	14,705
65-74	430	18,458	26,840	20,603

•Data from *American Journal of Public Health* – Forecasting the Future Economic Burden of Current Adolescent Overweight: An Estimate of Coronary Heart Disease Policy Model, 2009.

Figure 4: People with Chronic Conditions Account for 84% of National Health Care Dollars and 99% of Medicare Spending



Sources: *Medical Expenditure Panel Survey, 2006* and *Robert Wood Johnson Foundation, Chronic Care: Making the Case for Ongoing Care, February 2010.*

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Spending risk

Rising healthcare costs

Private health insurance covers ~45-50% of healthcare expenses for most <65 age working adults;
Medicare covers ~50% of healthcare expenses for people over age 65.

	2012 Payor Breakdown				
Age group	Private Health Insurance	Out-of-Pocket	Medicare	Medicaid	All Other Payers and Programs
Total	34.7%	13.4%	22.5%	16.3%	13.0%
0-18	34.8%	10.8%	0.0%	35.7%	18.7%
19-44	43.9%	12.6%	4.2%	21.9%	17.3%
45-64	50.0%	12.8%	10.8%	12.2%	14.2%
65-84	15.5%	15.0%	53.8%	8.6%	7.1%
85+	10.2%	17.1%	47.6%	16.9%	8.2%

Source: Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group

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Spending risk

Rising healthcare costs

Home healthcare and nursing care as a percent of spending increases dramatically as you age

2012 Spending Breakdown										
Age group	Hospital Care	Physician and Clinical Services	Other Professional Services	Dental Services	Other Health Residential and Personal Care	Home Health Care	Nursing Care Facilities and Continuing Care Retirement Communities	Prescription Drugs	Durable Medical Equipment	Other Non-durable Medical Products
Total	38%	24%	3%	5%	6%	3%	6%	11%	2%	2%
0-18	41%	25%	3%	11%	7%	3%	0%	7%	2%	1%
19-44	40%	27%	4%	5%	9%	2%	1%	10%	2%	2%
45-64	39%	26%	3%	4%	6%	2%	3%	13%	2%	2%
65-84	36%	22%	3%	3%	4%	4%	11%	12%	2%	3%
85+	29%	13%	2%	1%	4%	11%	30%	6%	2%	2%

Source: Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group

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Spending risk

Rising healthcare costs

Medicare pays a major role in home care spending while out-of-pocket, Medicare and Medicaid pay the heavy load on nursing care and continuing care

2012 Payment Breakdown For Home Care Spending					
Age group	Private Health Insurance	Out-of-Pocket	Medicare	Medicaid	All Other Payers and Programs
Total	8%	8%	43%	36%	4%
0-18	9%	5%	0%	83%	2%
19-44	13%	7%	5%	71%	4%
45-64	17%	7%	24%	46%	6%
65-84	4%	8%	65%	21%	2%
85+	6%	12%	60%	17%	5%

2012 Payment Breakdown For Nursing Care Facilities & Continuing Care					
Age group	Private Health Insurance	Out-of-Pocket	Medicare	Medicaid	All Other Payers and Programs
Total	8%	27%	23%	32%	10%
0-18	4%	25%	0%	62%	9%
19-44	6%	26%	9%	50%	9%
45-64	9%	25%	15%	40%	10%
65-84	7%	27%	29%	29%	9%
85+	9%	28%	20%	31%	11%

Source: Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group

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Spending risk

Long term care costs

- What is long term care?
- When you need a caregiver to assist you in two+ daily living activities
 - Bathing
 - Continenence
 - Dressing
 - Eating
 - Toileting
 - Transferring

Projected Long-Term Care Needs for 65 Year Olds			
	Men	Women	All
Percentage Who Will Need Care	58%	79%	69%
Average Number of Years	2.2	3.7	3
Percentage Needing No Care	42%	21%	31%
Percentage Needing 1 Year or Less	19%	16%	17%
Percentage Needing 1-2 Years	10%	13%	12%
Percentage Needing 2-5 Years	17%	22%	20%
Percentage Needing 5+ Years	11%	28%	20%

Distribution and duration of long-term care services

Type of care	Average number of years people use this type of care	Percent of people who use this type of care (%)
Any Services	3 years	69
At Home		
<i>Unpaid care only</i>	1 year	59
<i>Paid care</i>	Less than 1 year	42
<i>Any care at home</i>	2 years	65
In Facilities		
<i>Nursing facilities</i>	1 year	35
<i>Assisted living</i>	Less than 1 year	13
<i>Any care in facilities</i>	1 year	37

Last modified: 2/21/2017

Source: LongTermCare.gov ; U.S. Department of Health & Human Services, Wall Street Journal

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Spending risk

Long Term Care Cost Estimates and Long Term Insurance Claim Statistics

Compare Long Term Care Costs Across the United States

The Genworth Cost of Care Survey has been the foundation for long term care planning since 2004. Knowing the costs of different types of care - whether the care is provided at home or in a facility - can help you plan for these expenses. The 2016 survey, conducted by CareScout®, one of the most comprehensive of its kind, covering 440 regions across the U.S. and based on data collected from more than 15,000 completed surveys.

Annual Costs: Austin Area^Q, TX (2016)

Home Health Care	Adult Day Health Care ¹	Assisted Living Facility ⁴	Nursing Home Care
Homemaker Services²	Adult Day Health Care¹	Assisted Living Facility⁴	Semi-Private Room⁵
2016 Cost: \$49,192	2016 Cost: \$15,600	2016 Cost: \$54,915	2016 Cost: \$60,225
5-yr Annual Growth ³ : 4%	5-yr Annual Growth ³ : 4%	5-yr Annual Growth ³ : 3%	5-yr Annual Growth ³ : 1%
Home Health Aide²			Private Room⁵
2016 Cost: \$49,192			2016 Cost: \$84,315
5-yr Annual Growth ³ : 3%			5-yr Annual Growth ³ : 3%

Genworth 2016 Cost of Care Survey, conducted by CareScout®, April 2016.

[View the survey methodology](#)

Age of Claimant For New Claims Opened In 2012	
Under Age 50	0.3%
Age 50 - 59	1.9%
Age 60 - 69	8.7%
Age 70 - 79	25.4%
Age 80+	63.7%

Newly Opened Long Term Care Insurance Claims That Paid For	
Home Care	51.0%
Assisted Living	18.5%
Nursing Home	30.5%

Long Term Care Insurance Claims - Data From Genworth Study (2014)	
Youngest Claimant	27 years old
Oldest Claimant	103 years old
Most expensive claim (still ongoing)	\$1.3 million
Percentage of claims lasting more than 5 years	15%
Average length of claim if more than 1 year	3.9 years
Percentage of claims lasting more than 1 year	50%
Claim started with home care	71%
Claim started with assisted living facility	13%
Claim started with nursing home care	16%

Source: Genworth Long Term Cost Estimator, American Association of Long-Term Care Insurance

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Spending risk

Long Term Care Insurance: New Policy Statistics

Ages When People Apply For Long-Term Care Insurance (2011)	
Under35	1%
35-44	3.0%
45-54	22.0%
55-64	56.5%
65-74	See 2012 Sourcebook
75orOlder	See 2012 Sourcebook

Daily Benefit Amount - New Individual Policies (2011)	
Less than \$99	7.0%
\$100 - \$149	36.0%
\$150 - \$199	34.5%
\$200 - \$249	See 2012 Sourcebook
\$200+	See 2012 Sourcebook

Elimination Period - New Individual Policies (2012)	
Less than 30 Days	2.7%
31 - 89 Days	1.5%
90 - 100 Days	92.3%
100+ Days	3.5%

Benefit Period - New Individual Policies (2012)	
Less than 3 Years	10.5%
3 Years	31.2%
4 Years	27.0%
5 Years	See 2014 Sourcebook
6-10 Years	See 2014 Sourcebook
Lifetime	See 2014 Sourcebook

Source: American Association of Long-Term Care Insurance

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