

RETIREMENT POLICY ISSUES AND OPTIONS: WHAT THEY MEAN FOR YOUR RETIREMENT



Presented by LaRhae Knatterud
Minnesota Department of Human Services
at the
Minnesota Gerontological Society
Annual Conference



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Outline for Presentation

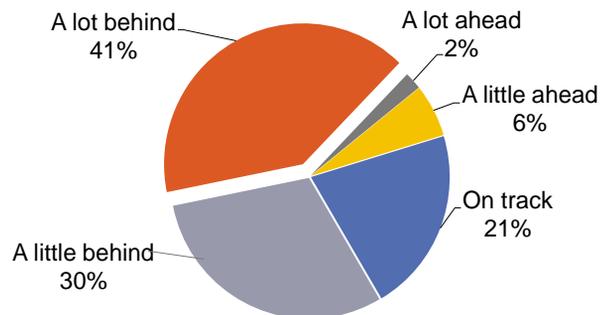
- Retirement issues and options
- Why you need to prepare for your retirement and long-term care needs
- Dimensions of retirement planning
- Key risks and challenges you need to address
- Timeline to retirement



Key retirement issues and options

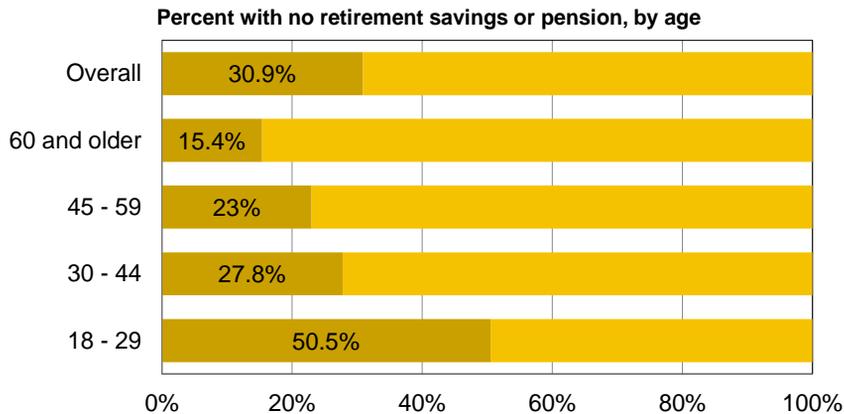
Only 21% of us are on track

**Response of workers when asked about their
planning and saving for retirement**



Source: Employee Benefit Research Institute, 2011

One-third of nonretired Americans have no retirement savings or pension



Source: Board of Governors of the Federal Reserve System, "Report on the Economic Well-Being of U.S. Households in 2013" (2014)

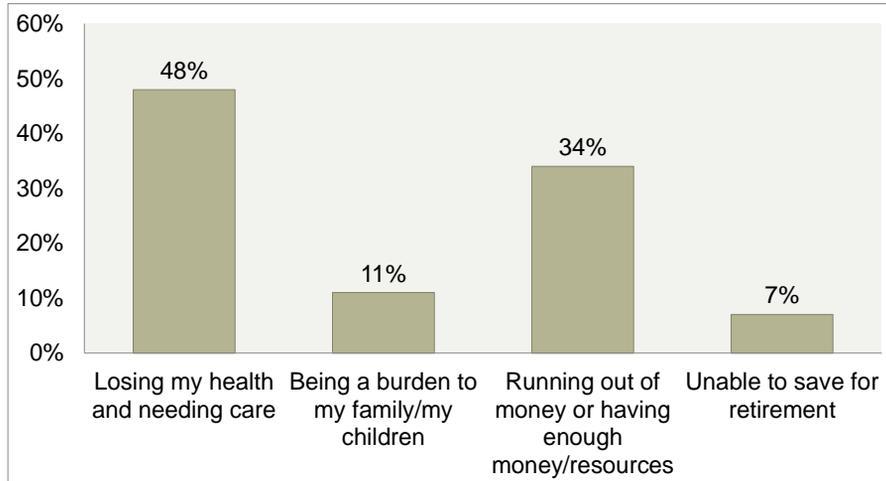
Why should I plan?

Planning will help you achieve the lifestyle and economic security you desire.

Planning for your future is a type of "self-investment."

Planning will help ensure that you have choices and options as you age.

“What is your biggest concern about retirement?”



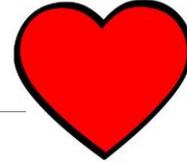
Source: MN Dept of Human Services, Own Your Future 2014 State Fair Survey

DIMENSIONS OF RETIREMENT

Retirement planning is much more than financial planning

Health

Managing healthcare and long-term care expenses, now and in the future



- Stay healthy by adopting good habits early in life and maintaining them
- 80% of health issues are the result of lifestyle decisions
- These habits will also prevent/delay long-term care needs
- Start long-term care planning early in life – more options are available to young, healthy individuals



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Healthy Aging?



- Boomers report worse health than their parents at the same age
- More have trouble climbing stairs, getting up from a chair and lifting their arms over their heads
- Higher rates of drug dependency and mental health problems

Home

Upsizing, downsizing, time for senior housing?



- More retirees are staying close to current home and community
- Housing is often the largest asset of retirees
- How to draw down that asset is important decision
- Need for affordable housing options for retirees is growing

Family

Taking care of your family and having conversations about caregiving



Estate planning

Planning for disposition of property upon death

Will or trust

Nonprobate transfers (giving away your “stuff”)

Lifetime planning

- Power of attorney
- Health care directive and health care agent

Tax planning

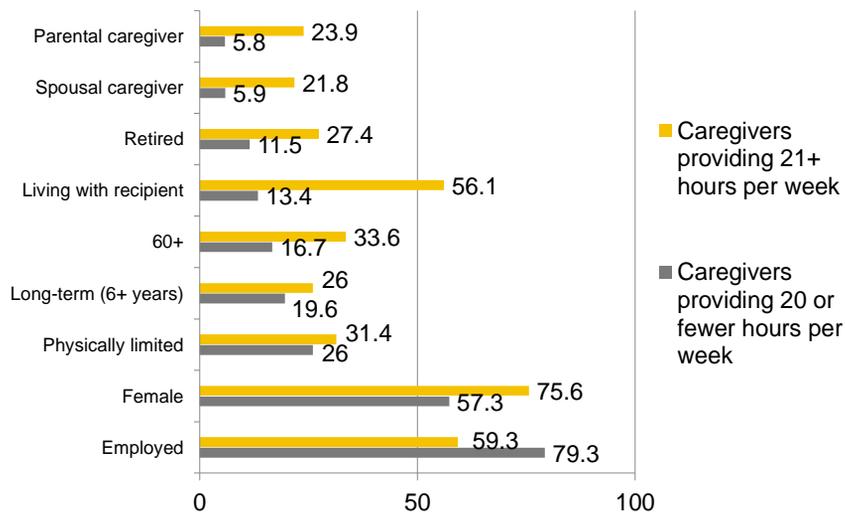
What about Caregiving?



- Number of workers caregiving for older relatives – 3 in 10 in 2010, rising to 6 in 10 in 2030
- Many retire and begin caregiving for older relatives (65 year old cares for 90 year old)
- Some retire *because* someone in the family needs caregiving (hidden reason for retirement)

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Characteristics of Minnesota Caregivers



Source: Minnesota Dept of Health, BRFSS Survey, 2009

Will your family take care of you?

- 92% of all care provided to older people is provided by their family.
- Important to have conversation about this issue **before** you need care.
- Daughters spend twice as much time caring for parents than sons.



Leisure

Spending your free time in ways that are meaningful to you



- Each of us needs to find the proper balance between work and leisure time - varies greatly by individual
- Old view was retirement was an entitlement after a life of hard work, and it lasted only a few years
- Now “retirement” can last 30+ years
- Studies show that retirees often increase their sport participation/exercise--and television watching--when they retire
- Travel when you are younger because you may not be able to later in your life

Giving

Volunteering, mentoring others and giving to charities



- Minnesota has highest rates of volunteerism in the country.
- Pre-retiree volunteer work may expand in retirement.
- Those who have not volunteered earlier in life may have trouble connecting to a cause and an organization.
- Try some of this before you retire so you know what type of work you want to do and what role you want to play.
- Use your career skills? Develop whole new skills?
- Connect with resources, e.g., Vital Aging Network, Senior LinkAge Line.
- Put your favorite charities and causes in your will/trust.

Work

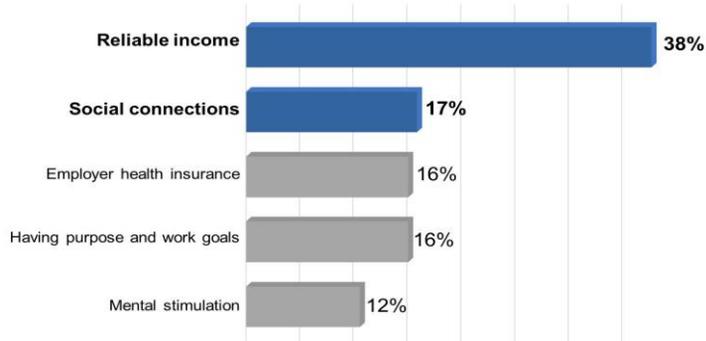
Working in retirement, starting a business, doing nonpaid work



- Older adults today are envisioning a retirement more engaged, productive and active than earlier generations.
- 7 out of 10 of pre-retirees say they want to include some work in retirement as well as family and leisure activities.
- Options
 - gradual retirement (PRO)
 - new part-time job
 - encore careers
 - entrepreneur
 - mentoring young workers

Difference before and after retirement

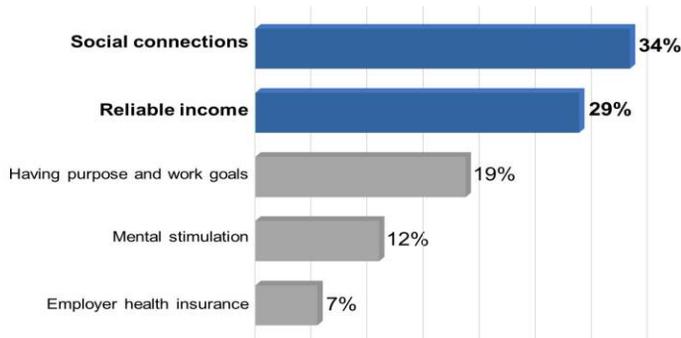
What pre-retirees think they will miss most about work when they retire



Source: Merrill Lynch/Age Wave "Americans' Perspectives on New Retirement Realities and the Longevity Bonus" Survey 2013, Pre-Retirees

Difference before and after retirement

What retirees miss most about work when they retire



Source: Merrill Lynch/Age Wave "Americans' Perspectives on New Retirement Realities and the Longevity Bonus" Survey 2013, Retirees

Finances

Bringing it all together and defining your financial goals



- Start saving early
- Check a retirement calculator so you know how much money you will need--monthly
- Ideal is to have three or four legs in the financial stool
 - Pension (defined benefit or contribution)
 - Personal savings or deferred comp plan
 - Social Security
 - Earnings from work (if needed/wanted)



Finances During Retirement

- Retirees spend:
 - More money right after retirement (5 years)
 - Less money for the middle phase (10-15 years)
 - More money when they start to need long-term care and LTC is major expense (final 2-3 years)



Retirement Challenges

1. Higher Health Costs

The longer you live, the more your health care will cost.

2. Longer Life Expectancy

This fact is challenging the 4% safe withdrawal rate.

3. Long-Term Care Needs

You have 70% chance of needing long-term care sometime after age 65.

4. Social Security Uncertainty

The role of Social Security in the retirement planning process is changing as concerns grow about the availability of benefits in the future.



Source: adapted from Merrill Lynch Retirement Study, 2014

OWN YOUR FUTURE

Long-term care planning issues

Own Your Future Initiative



Sponsored by the Dayton Administration, with support from Dept of Human Services, in partnership with several state agencies

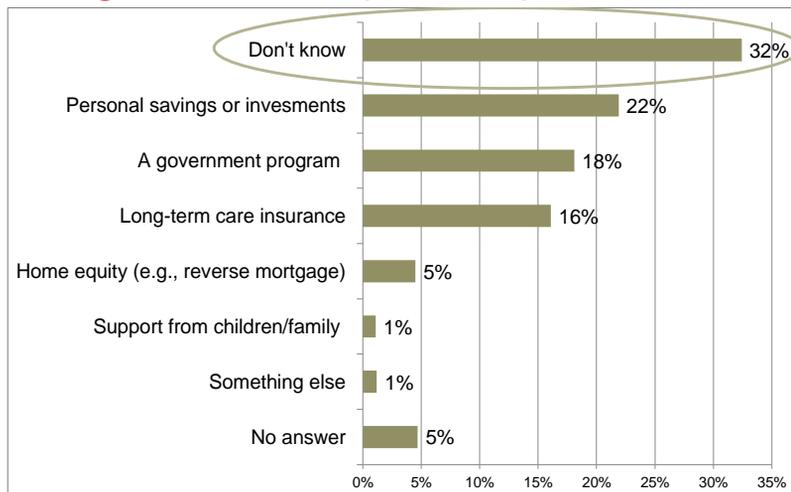
Purpose is to encourage and enable individuals to include long-term care in their retirement planning, including how to pay for it

Longer life expectancies and dramatic growth in numbers of older people will increase the need for long-term care, and will have major impact on the state budget

Long-Term Care (LTC) Planning

- The risk of needing long-term care is high.
- Medicare and regular health insurance and disability insurance do not pay for long-term care.
- Medical Assistance (MA) pays for LTC but requires spend down of nearly all your assets and income before you are eligible, which reduces choice and control.

How Boomers Plan to Cover the Cost of Long-Term Care (n=3,809)



Personal planning



Who can you count on for help?

- The family provides the vast majority of care to frail elderly relatives (92%).
- When family cannot provide care, we must pay for the long-term care we need.
- Some don't want to be a burden on their families.
- Have honest conversations with spouse/partner and adult children.
- If not, you risk having important decisions made for you when emotions are high, choices are confusing and there is little time to think clearly.

What does your community offer?

- Local volunteer-based in-home service programs
- Older Americans Act- funded programs in most communities in the state
- Cities and counties provide a variety of services to their residents of all incomes and ages, e.g., transportation, help with home repair, recreation, help with outdoor chores



- Call local Senior LinkAge Line to find out more details
- Once you know what services are/are not available, you can decide if you want to move or stay where you are

Housing Planning



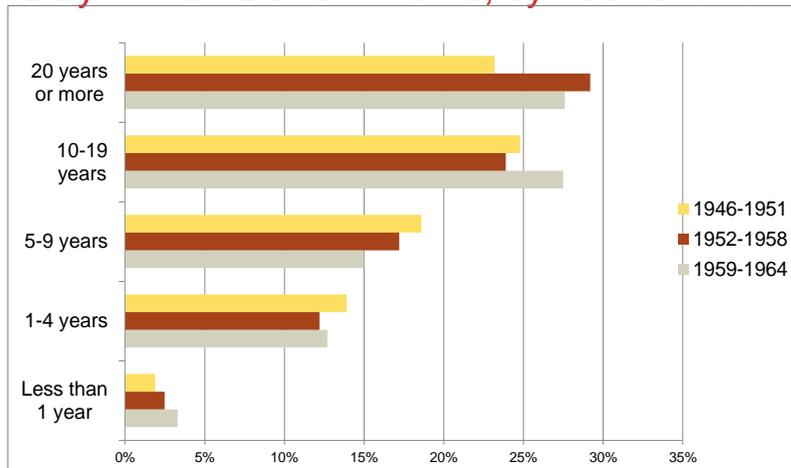
Do I move or stay?

Does your house have a kitchen, bathroom and bedroom on the same floor?

“Age in place” in original home

- Modify the home so you can stay
- Share the home with other family/friends
- Move to one-level living in same/different community
- Move to another location/state
- Move to option that provides housing with services such as “senior only” housing

Additional Years Minnesota Boomers Expect to Stay in their Current Home, by Year of Birth



Source: MN Dept of Human Services, Transform 2010 Survey of Boomers, 2010

Financial planning



- Formal long-term care services can be expensive.
- It is important to know how much various types of services and facility care will cost when you need care in the future.
- What are the financing options available to you?
- Many think that long-term care insurance is the only option that pays for long-term care. There are actually a number of ways to pay for this care.

Long-term care costs in Minnesota

Average Daily Nursing Home Rate – private room	Average Daily Nursing Home Rate – semi-private room	Average Monthly Cost in Assisted Living Facility	Average Daily Rate Adult Day Care	Average Hourly Rate Home Health Aide	Average Hourly Rate Homemaker Services
\$243 \$88,542/ annual	\$228 \$83,264/ annual	\$3,403* \$40,830/ annual	\$72 \$18,720/ annual	\$26 \$58,916/ annual	\$23 \$52,624/ annual

*Not all-inclusive; additional charges for home care services
Source: Genworth 2014 Cost of Care Survey

What financing options are available?

Home Equity Options	Savings Options	Insurance Options
Sell your home and use equity to pay for LTC	Personal income and savings	Long-term care insurance including Partnership
Home equity loan or line of credit	Long-term care annuities	Life insurance with LTC rider
Reverse mortgages	Health savings accounts	Accelerated death benefits
		Viatical settlements
		Life settlements
		Veterans benefits

Advance care planning



- Determining your wishes for care, especially end-of-life care, and making these known to your family and others who need to know.
- These wishes are written down in a health care directive and given to family, physician and others.
- You should identify a health care agent who has agreed to communicate your wishes if you cannot.
- These health care directives are included in electronic personal health records.

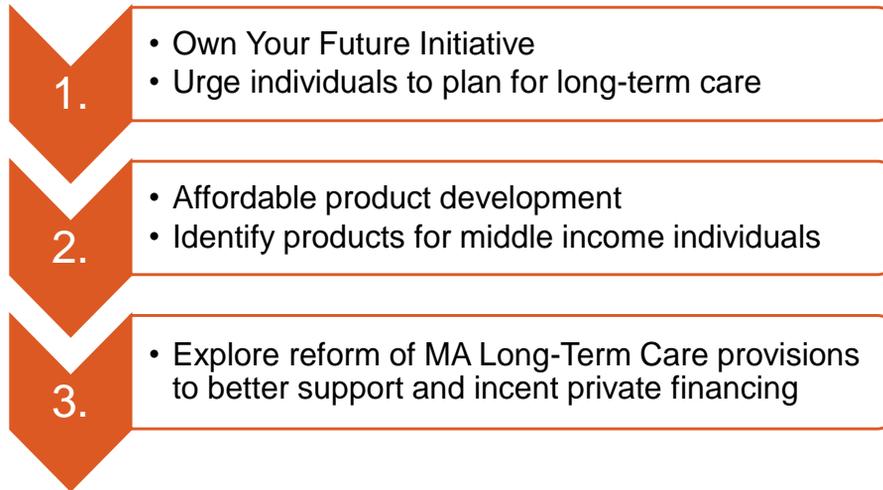
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Four Key Questions

- Are family or friends willing to take care for you?
- Does your home have a bedroom, bathroom and kitchen on the same floor?
- How are you going to pay for in-home care, assisted living or a nursing home?
- Have you written down your wishes for end-of-life care?



Own Your Future Components



Initial Product Concepts

Stimulate the LTCI market to offer new products for middle income	Modify laws or regulations to allow changes in products	Modernize Medicare and related products	Improve access to and safety of home equity options	Increase use of tax-favored savings plans
Encourage marketing of starter or transition LTCI plan	Work on state reciprocity for group and hybrid partnership products	Study feasibility of including LTC in Medicare supplemental policies	Make reforms in MN reverse mortgage laws to improve market and consumer protection	Create new or modify existing HSA provisions to allow use for LTC protection and expenses
Encourage marketing of streamlined basic LTCI plan	Further development of combination term insurance and LTCI for lifetime protection	Consolidate the Medicare nursing facility, home health and hospice benefit into a flexible LTC benefit	Support new options for accessing home equity for LTC	Modify provisions of tax-deferred savings plans to allow use for LTC protection and expenses
Encourage marketing of high deductible, catastrophic LTCI	Study pros/cons of establishing life settlement trust funds	Support federal Commission recommendations on Medicare changes		
Study how a public LTCI option might work in MN	Study feasibility of new reinsurance options for LTCI market			

New products with most potential

Combination term and long-term care insurance product

- A term life insurance product that converts into a LTCI product at retirement
- Appears to have strong consumer interest
- Actuarial analysis looks affordable
- Has potential to be a “game changer” because it offers lifetime protection

LTC coverage in Medicare products

- Studying the possible addition of a home health benefit to all Medicare supplemental policies sold in Minnesota
- Also looking at creating a LTC benefit in Medicare out of existing nursing facility, home health, therapy and hospice benefits

Work Continues on Next Steps

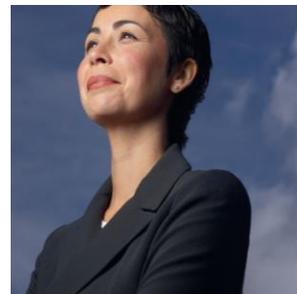
1. Create a LTC financing help center
2. Further develop combination term and LTC insurance product
3. Study adding a LTC benefit to Medicare supplemental plans
4. Create a state-specific simulation model for a new LTC financing system
5. Change state LTCI tax credit to focus more on middle income households
6. Reduce the minimum inflation level required for Partnership policies from 3% to 1%

TIMELINE TO RETIREMENT

Countdown on what to do when, so you are prepared

When retirement is a still a dream....

- Get started with good habits
- Live healthy lifestyle
- Think about what you want to do in retirement
- Start a system of organizing important papers
- Develop your first retirement plan



Retirement is 5–10 years away

- Attend pre-retirement classes available through work or in your community
- Reassess your saving and investments in light of the money you need to retire
- Make sure your estate planning is complete
- Plan for long-term care
(if you plan to buy insurance, don't wait too long or you will not be eligible)



Retirement is 3-5 years away

- Determine where you want to live when you retire
- Make sure you have tried living wherever you want to move
- If aging in place, make sure your home is safe and accessible
- Get an estimate of the benefits you will receive from your retirement plans



Retirement is 1-3 years away

- Determine if you are going to work in retirement and prepare for that
- Start doing some of the things you dreamed about doing in retirement
- Attend retirement seminars and classes to understand details of Social Security, Medicare, your pensions and health/life insurance options



The Year You Retire

- Early in the year, meet with Social Security and retirement plan reps to determine actual retirement date and other details
- Review and update your post-retirement budget
- Make sure you factor in taxes you will pay on benefits
- Tell your boss you are retiring



After You Retire.....

- Cash your first retirement check
- Check with HR if you were in a union, so that you can find out if any provisions in the new contract will affect you
- List 100 “bucket” activities and start doing them
- Enjoy!



Conclusion

Are You Ready?



FOR MORE INFORMATION

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