The Growing Burden of Retirement:
Rising Costs and More Risk Increase Uncertainty

Webinar

September 16, 2020

NATIONAL INSTITUTE ON
Retirement Security
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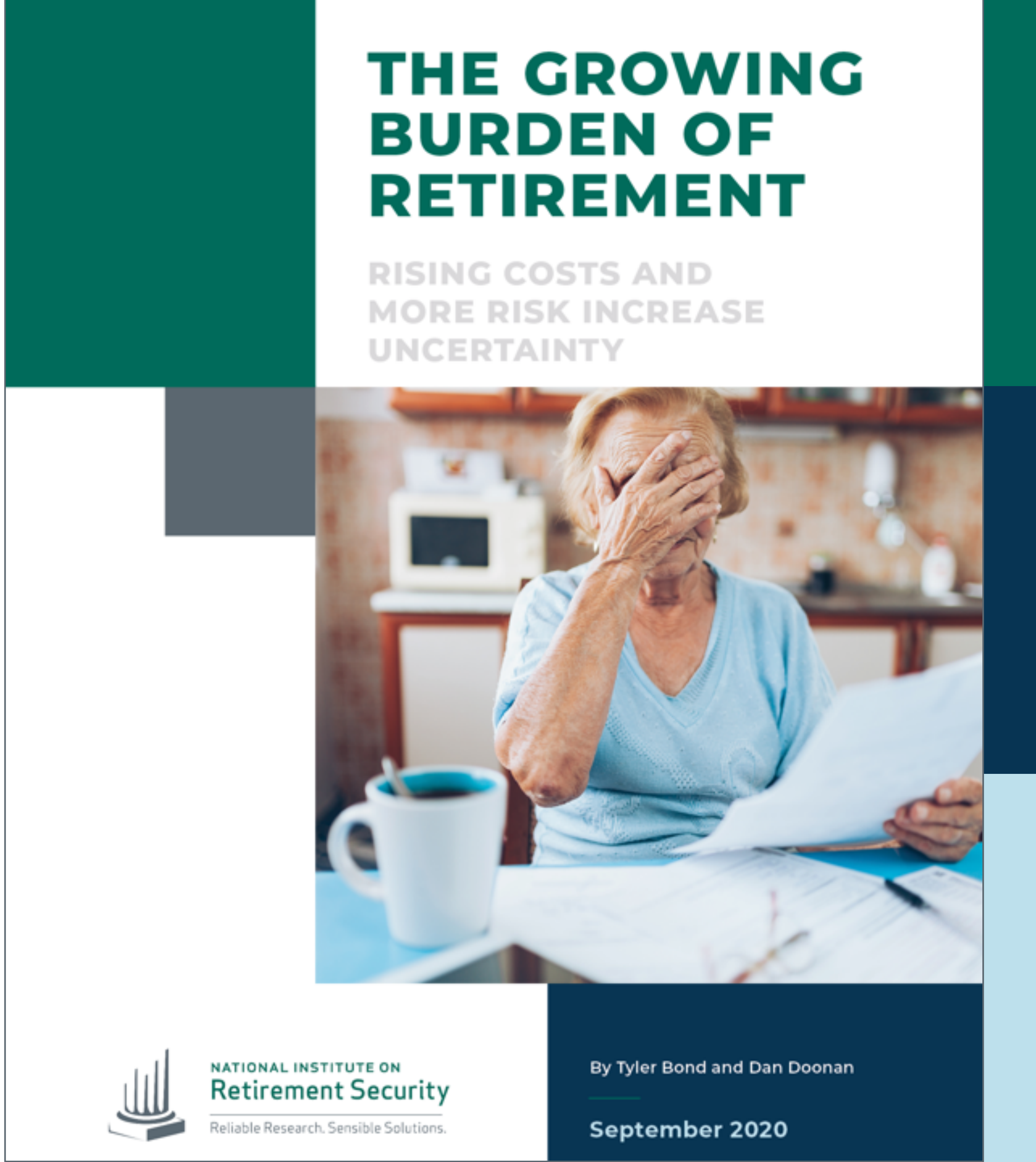
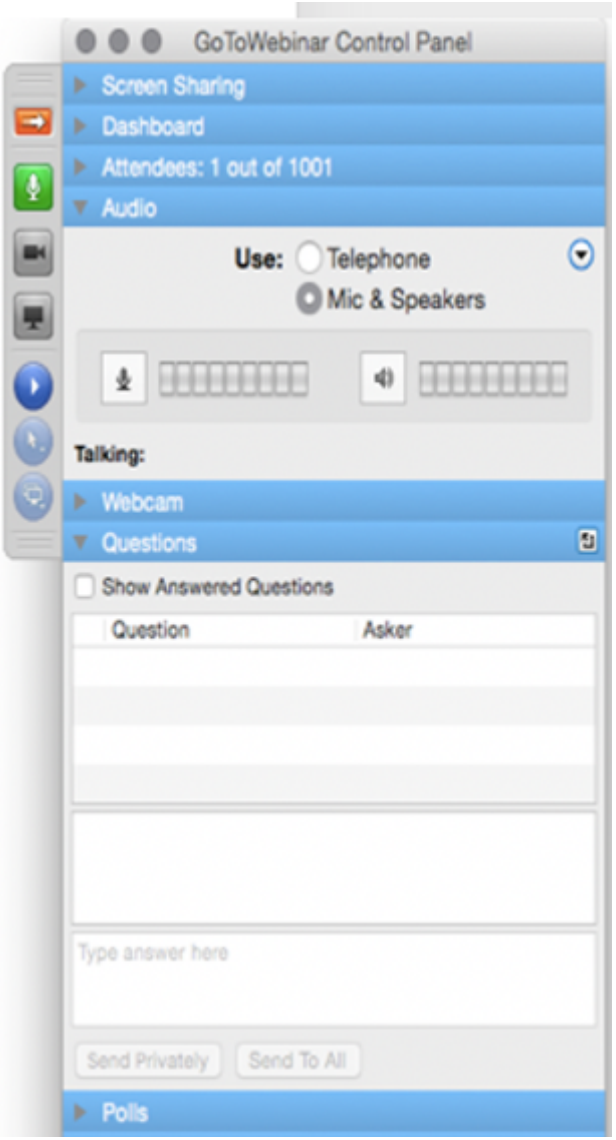
Agenda

- Logistics and Introductions
- Research Review
- Q&A



Logistics

- Attendees in listen only mode.
- Questions welcome. Type question using "Question" function on control panel, and we will answer.
- Audio, technical issues during webinar, call GoToWebinar at 1-800-263-6317.
- Webinar replay and slides will be posted at www.nirsonline.org/research/growingburden.



Speakers

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Why This Report

- The goal of this report is to pull together data and trends for many of the major factors impacting retirement security, in order to bring the larger picture into focus.

- We are familiar with many of the areas where risks and costs present challenges for retirees, but they are often discussed individually. We believe it is valuable to bring this information together to show how these risks can stack up on Americans.

- Retirement changes take decades to be fully felt, but we know where the trends are heading.

Six Key Findings

- **Saving early and continuously during working years is difficult for many workers**. Many workers may struggle to meet suggested retirement savings targets even if they have a desire to save.

- **Workers face market timing, interest rate, and longevity risks when they approach retirement age**. These risks can derail carefully laid retirement plans and make retirement daunting.

- **The number of Americans age 65+ who are cost-burdened by housing costs has increased** as more seniors are carrying mortgage debt into retirement.

- **Healthcare costs continue to rise for Americans** and these costs are higher for older Americans. Also, lower-income seniors spend a greater proportion of their income on healthcare costs than their more affluent peers.

Six Key Findings (cont.)

- **Long-term care costs represent an increasing challenge for older Americans** and it can be prohibitively expensive for those who require nursing home care for multiple years. This need is projected to increase as more Baby Boomers retire.

- **Creative solutions exist** to begin addressing these challenges. Washington State has a pioneering program to cover long-term care costs via a social insurance model. The private sector is creating lifetime income options, expanding access to workplace plans. Experts have proposed purchasing annuities via Social Security and expanding Social Security would have a broad impact.

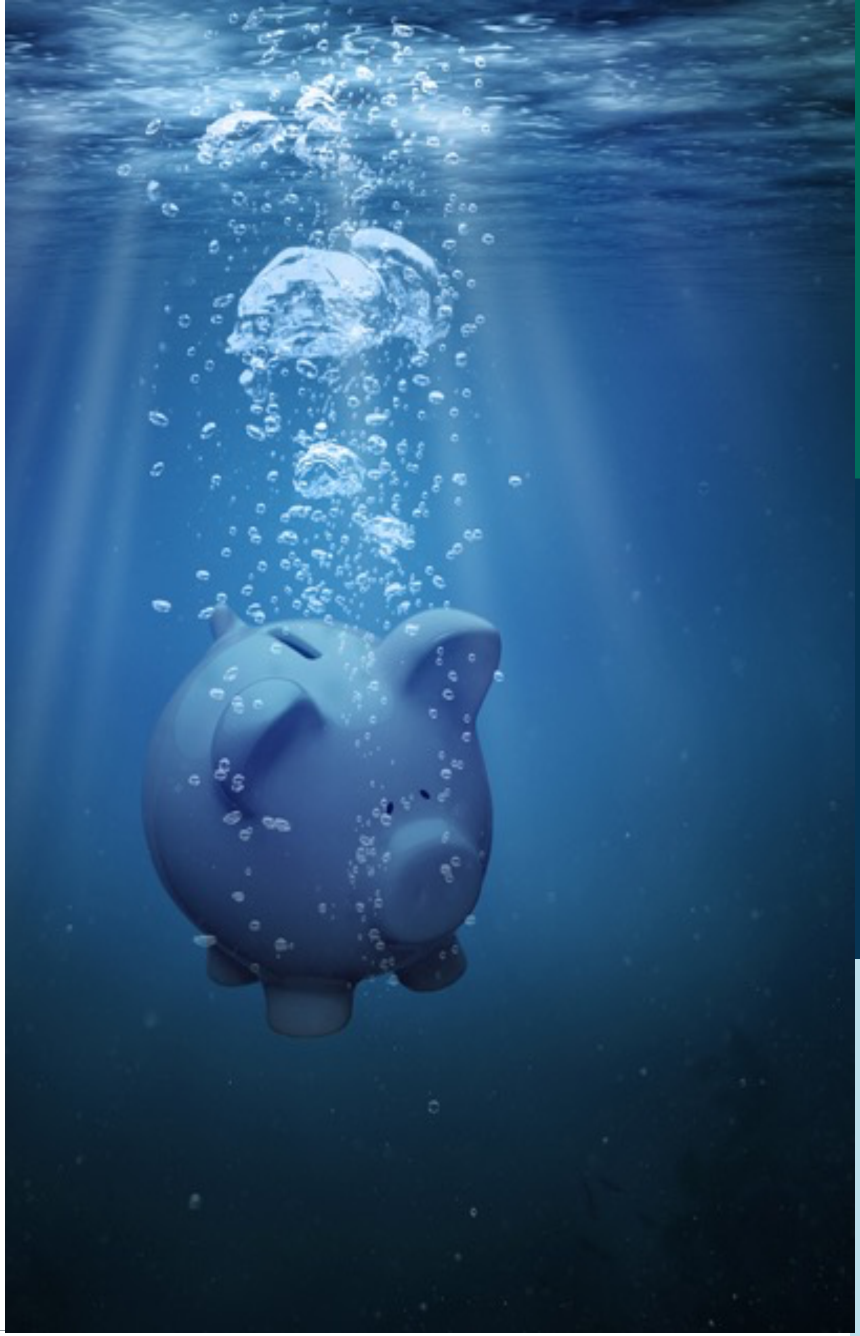
The Challenge of Savings

- Most savings projection models assume full careers & steady returns. Models that assume contributions of 15% of pay each year do produce strong projections.

- Those models offer great advice, but largely do not match the experiences of working people.

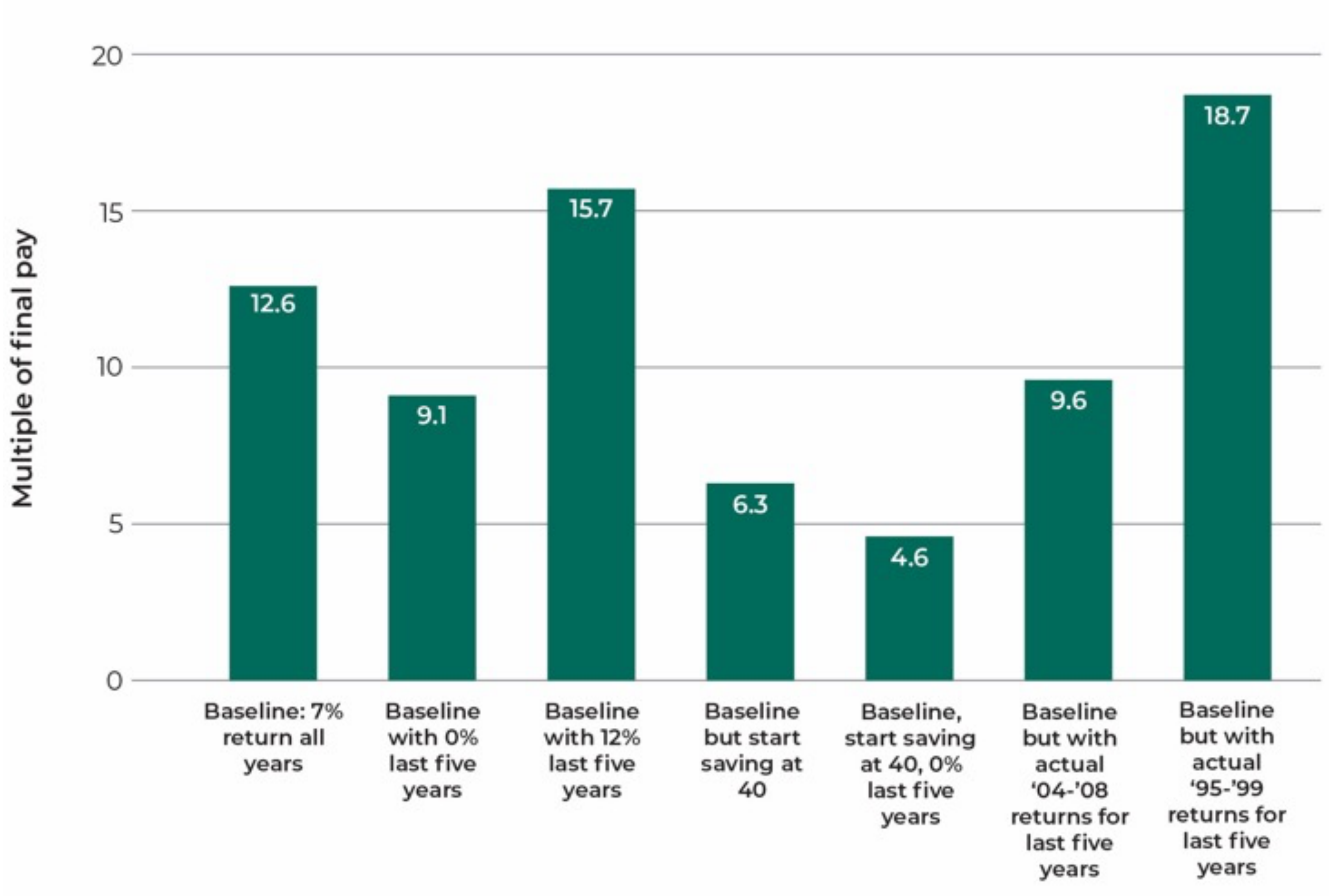
- There are also tremendous variations in outcomes due to investment returns during the last five years of working.

- And, getting a late start on saving impacts outcomes greatly.



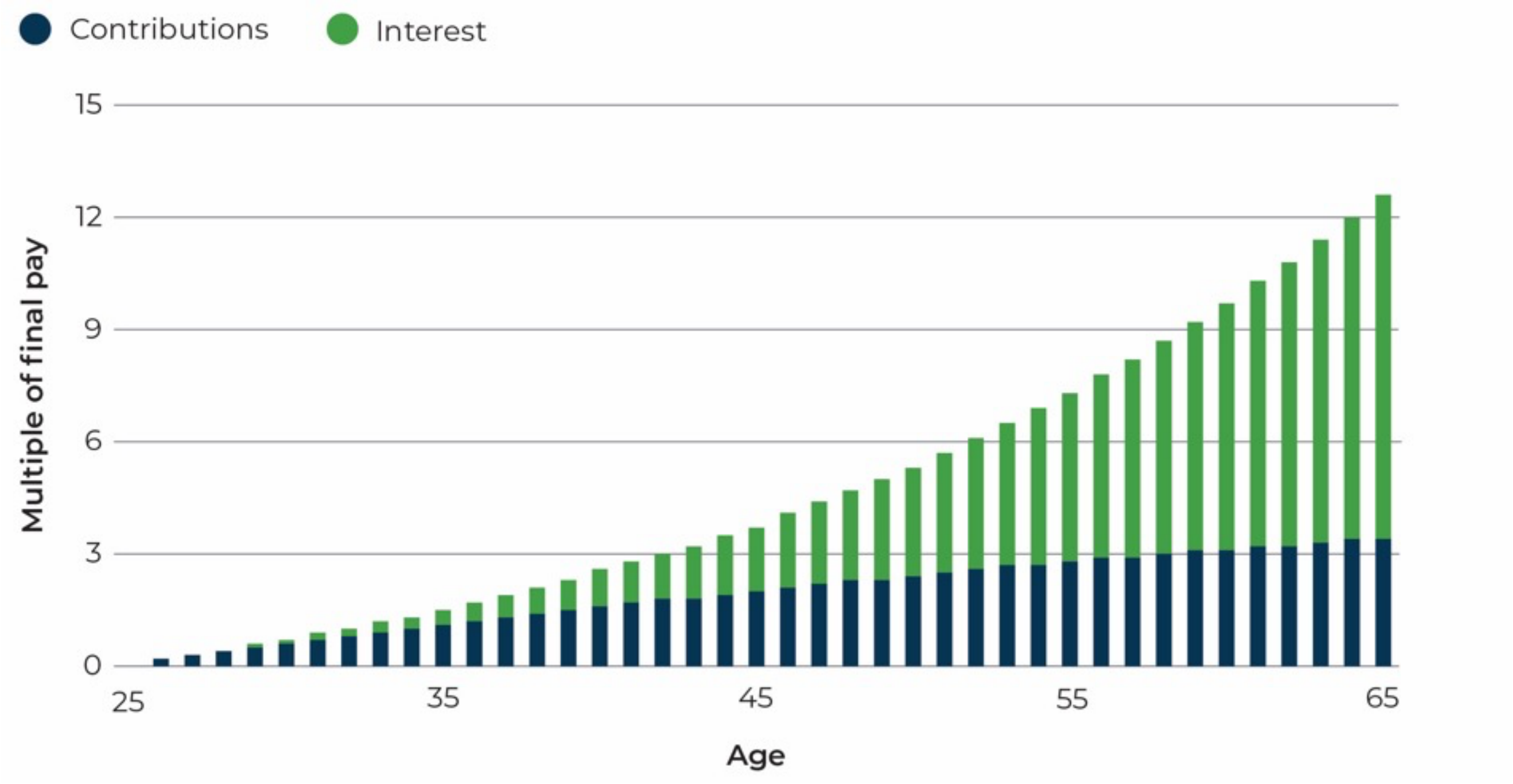
DC Savings as Multiple of Final Pay at Retirement

Figure 1



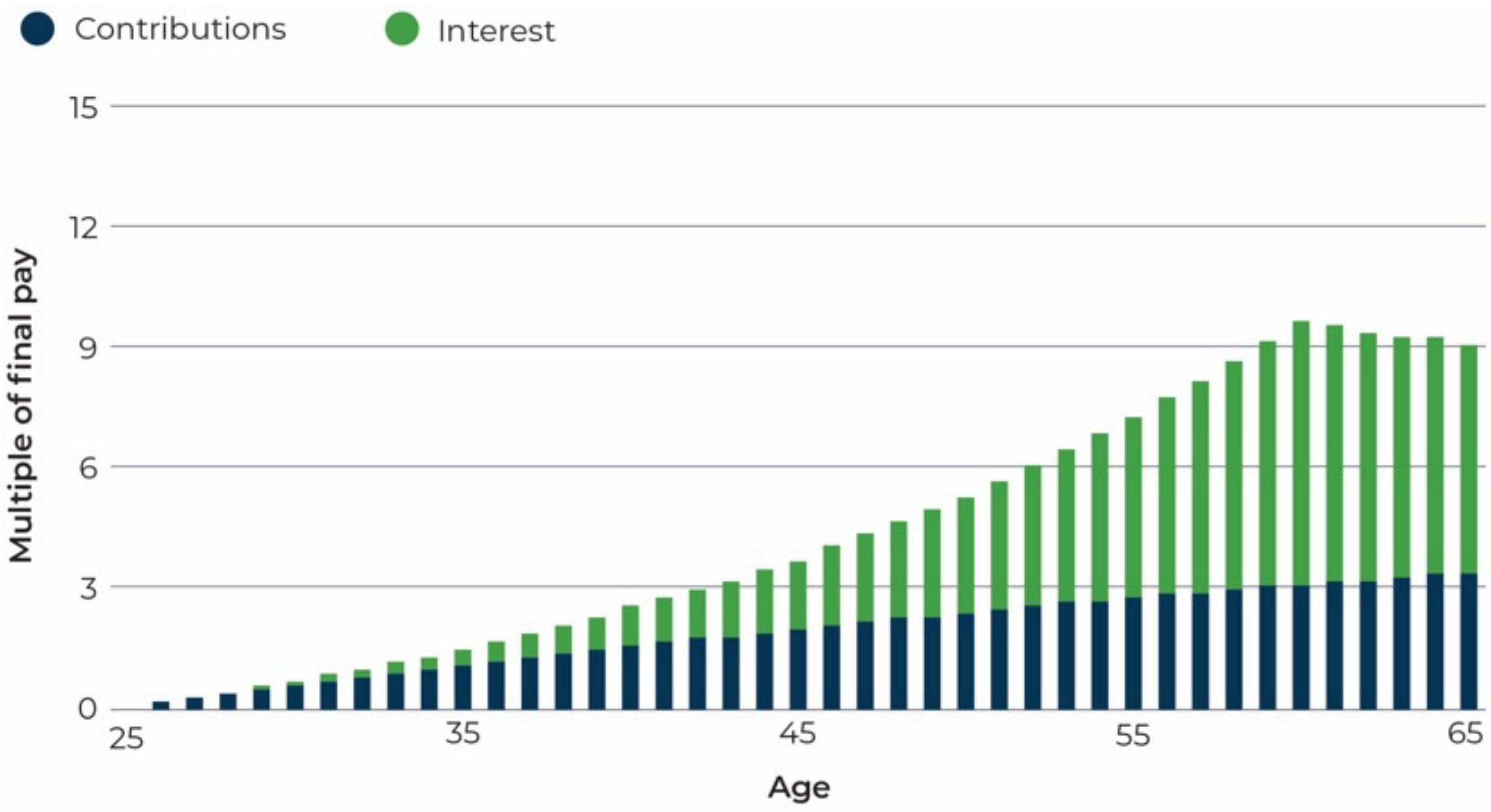
Base Scenario Savings as Multiple of Pay

Figure 2



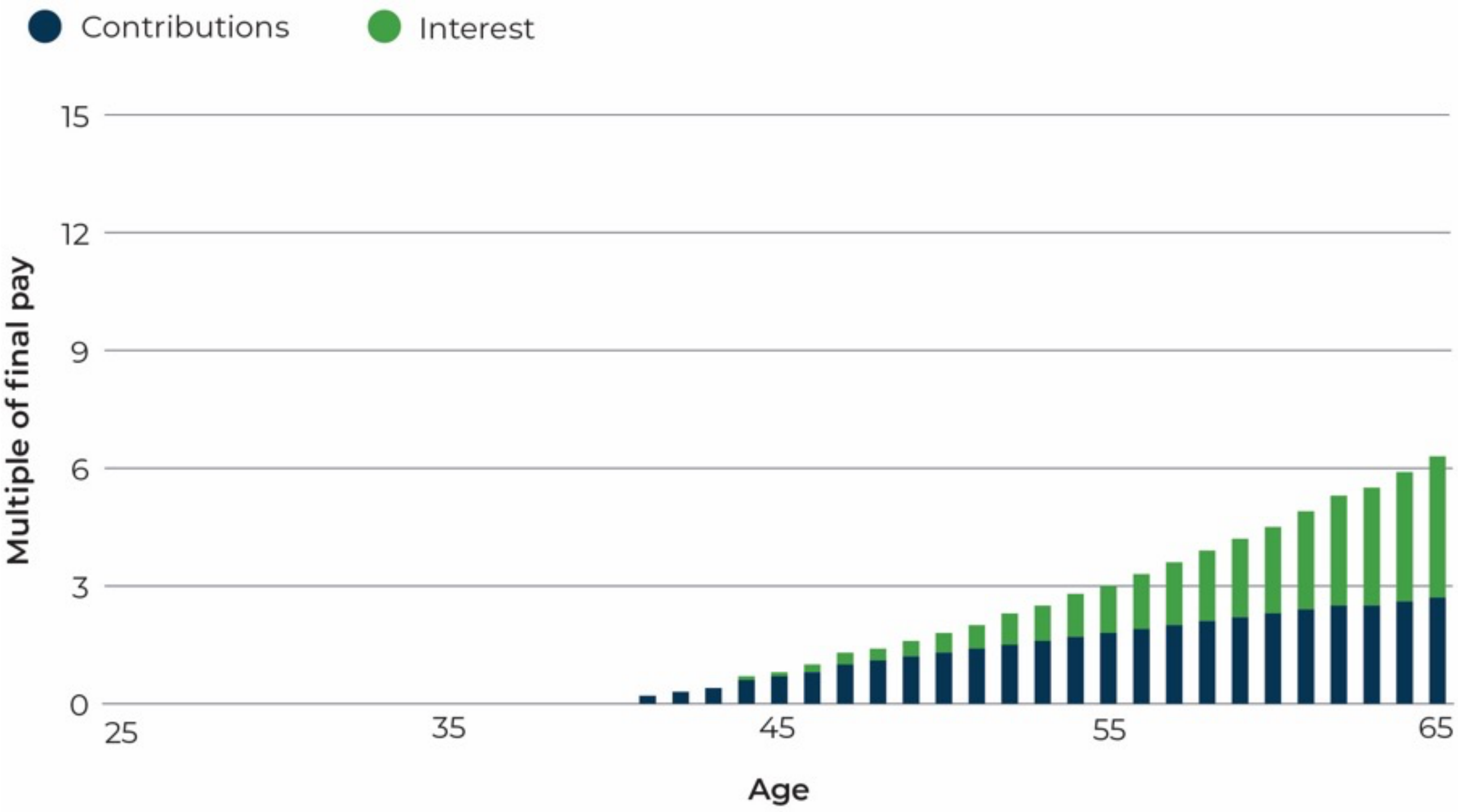
0% Returns for Last 5 Years, Savings as Multiple of Pay

Figure 3



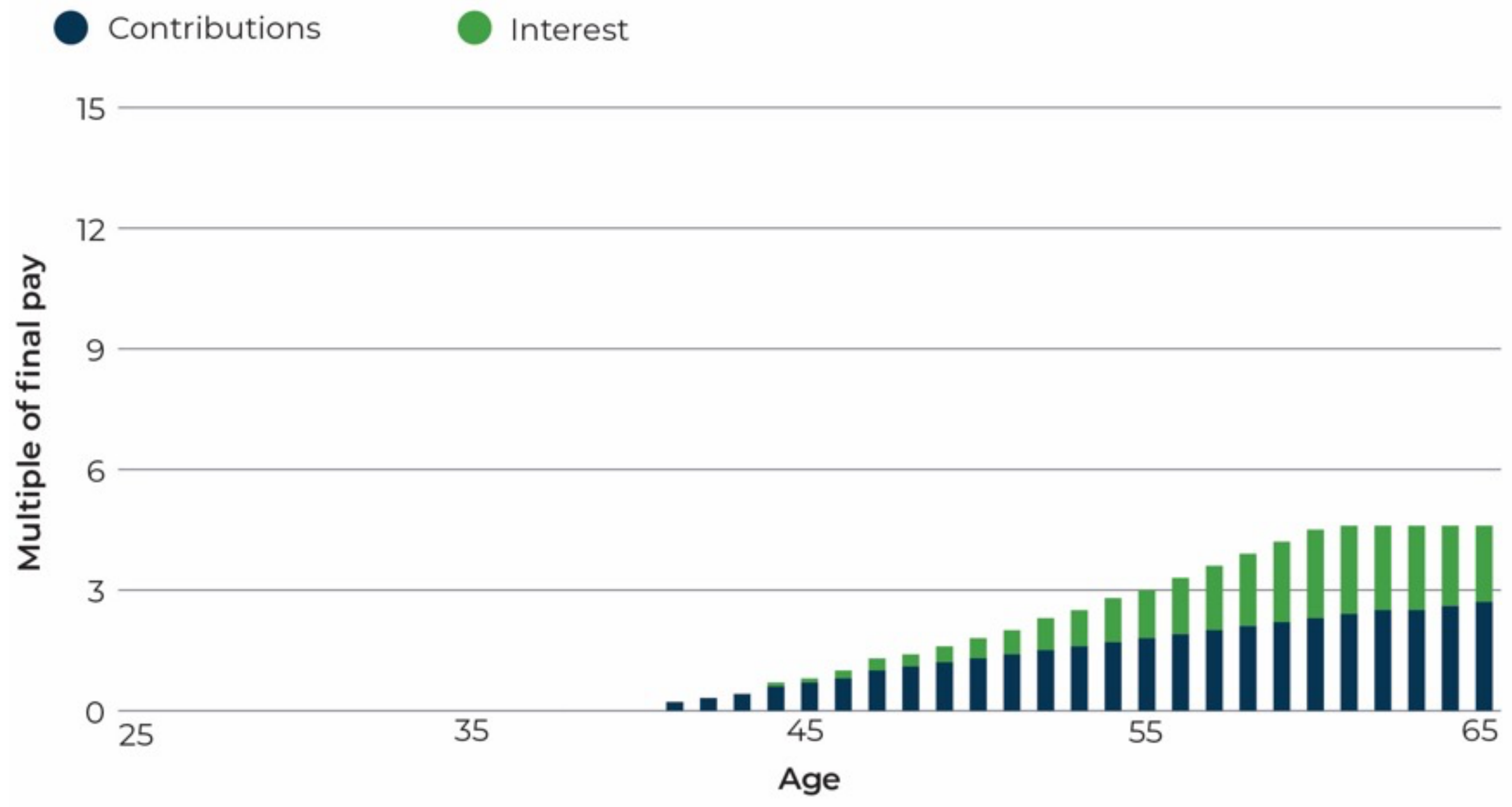
Starting at Age 40, Savings as Multiple of Pay

Figure 4



Starting at Age 40, Plus 0% Returns for Last 5 Years, Savings as Multiple of Pay

Figure 5



Generating Income from Savings Without Risk Pooling

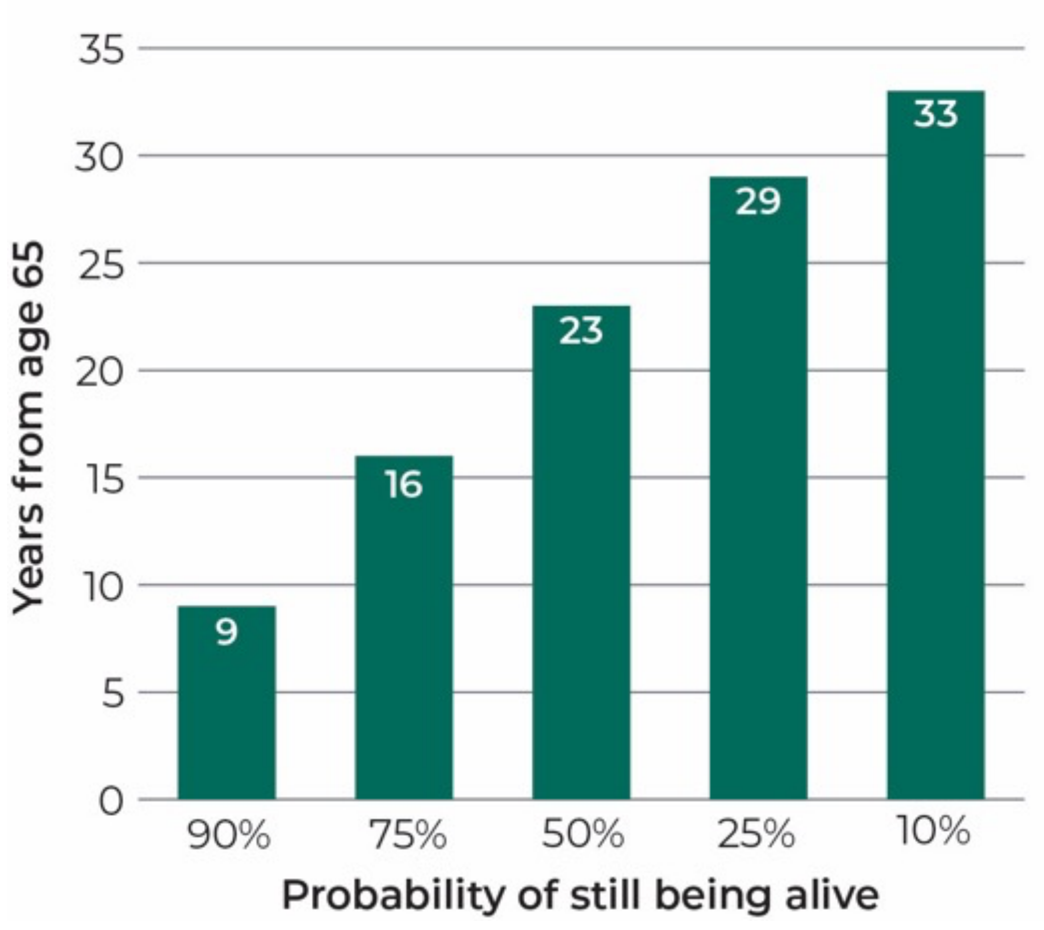
- **Whether through annuities or self-directed investments, fluctuating interest rates add another layer of risk to retirement income.**
  - Interest rates have been declining steadily and have been historically low during the past decade as policymakers use monetary policy to keep the economy afloat.
  - Workers nearing retirement couldn’t have anticipated the reduced income that will be available from their savings efforts.
  - This leaves retirees (the ones who have savings) left to decide between reduced income or greater risk.
- **Without longevity pooling, there are vast differences in how long savings must last.**
  - This level of uncertainty is incredibly hard to plan for.

10-Year Treasury Bond Yields, 1970 – 2020

Figure 6

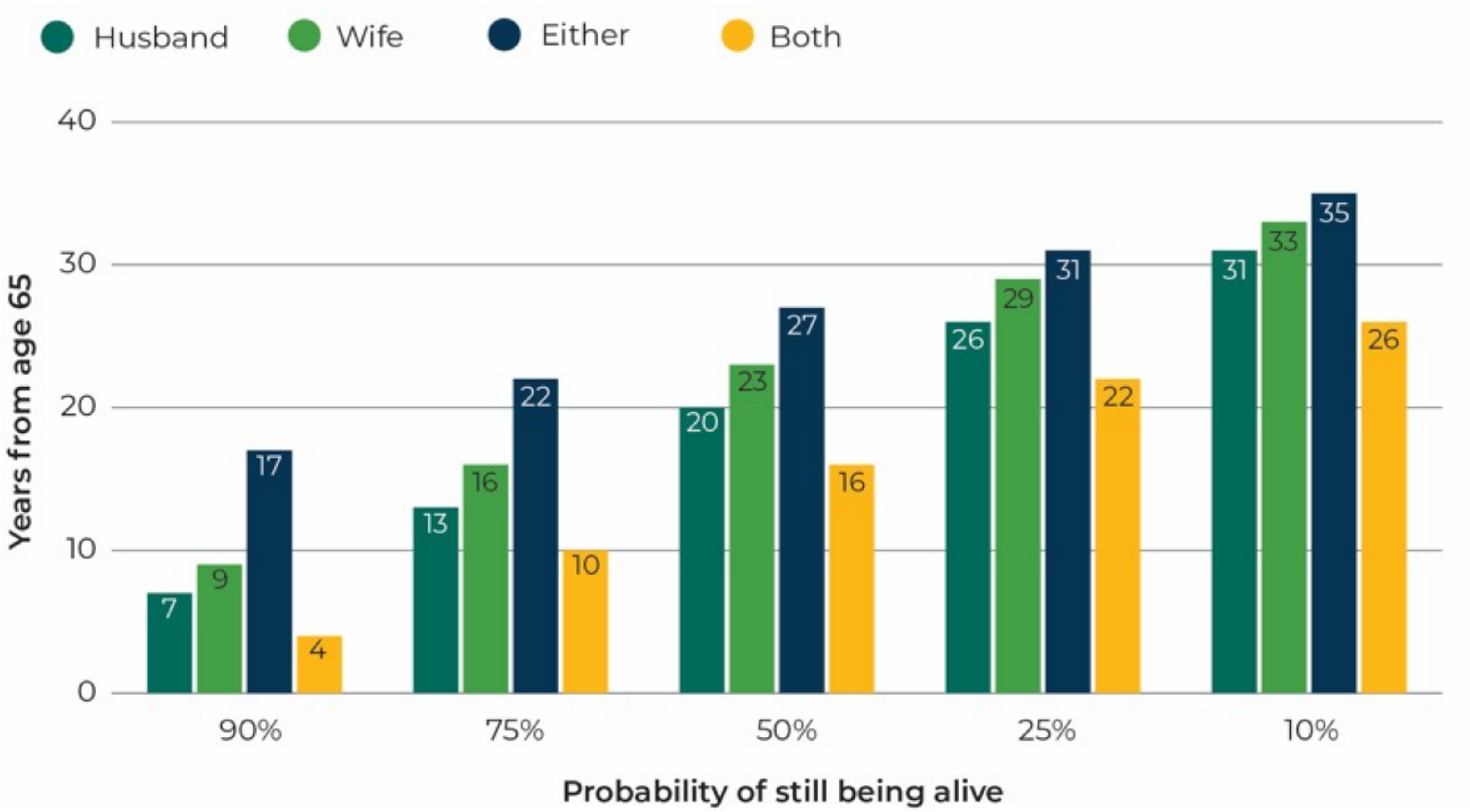
Planning Horizon, Women Aged 65+

Figure 7



Planning Horizon, Married Couple

Figure 8

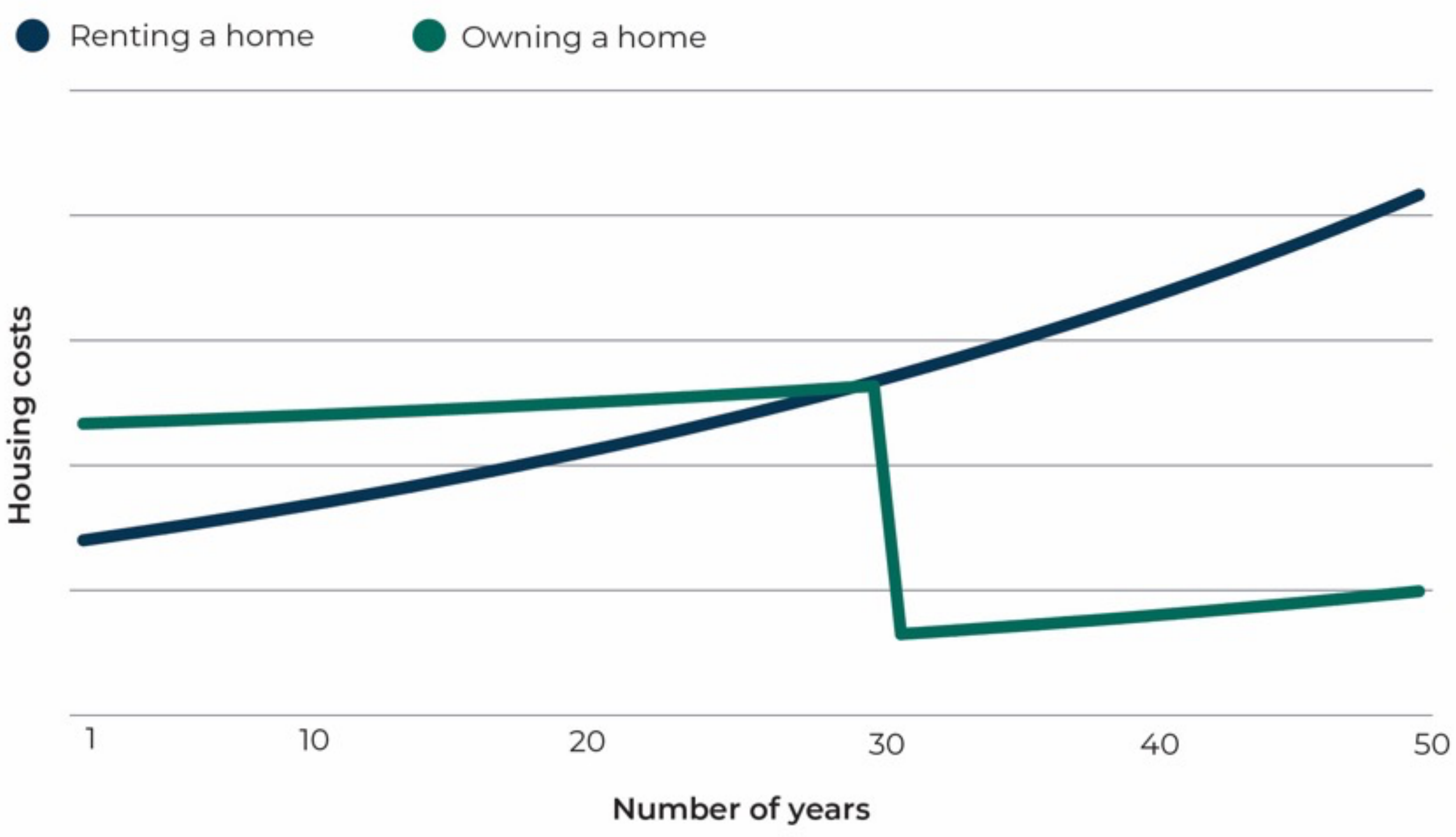


Housing Trends Raise More Concerns

- **Housing costs are a major factor in determining retirement needs. If a home is fully owned, retirement expenses can be greatly reduced.**
- **Key trends among those who purchased homes:**
  - Housing wealth is highly correlated with overall wealth.
  - The percentage of older Americans who own a home peaked in 2012 at 81 percent. Since, it has fallen to 78.5 percent. And, fewer near-retirees own a home than current retirees.
  - More Americans are carrying mortgages into retirement (46%) than in the past (24%, 30 years ago).
- **Renters face other challenges, such as increasing costs and cost burdens**
  - 10 million seniors were cost burdened in 2017, which was up 200,000 from the prior year
  - Racial and gender divides follow into retirement, even on home ownership rates and the likelihood of carrying housing debt into retirement.
  - Affordable housing is a major challenge.

Housing Costs Over Time, Rent vs. Own

Figure 9



Healthcare Challenges Persist in Retirement

A 65-year old couple retiring in 2019 can expect to spend $285,000 on healthcare in retirement.

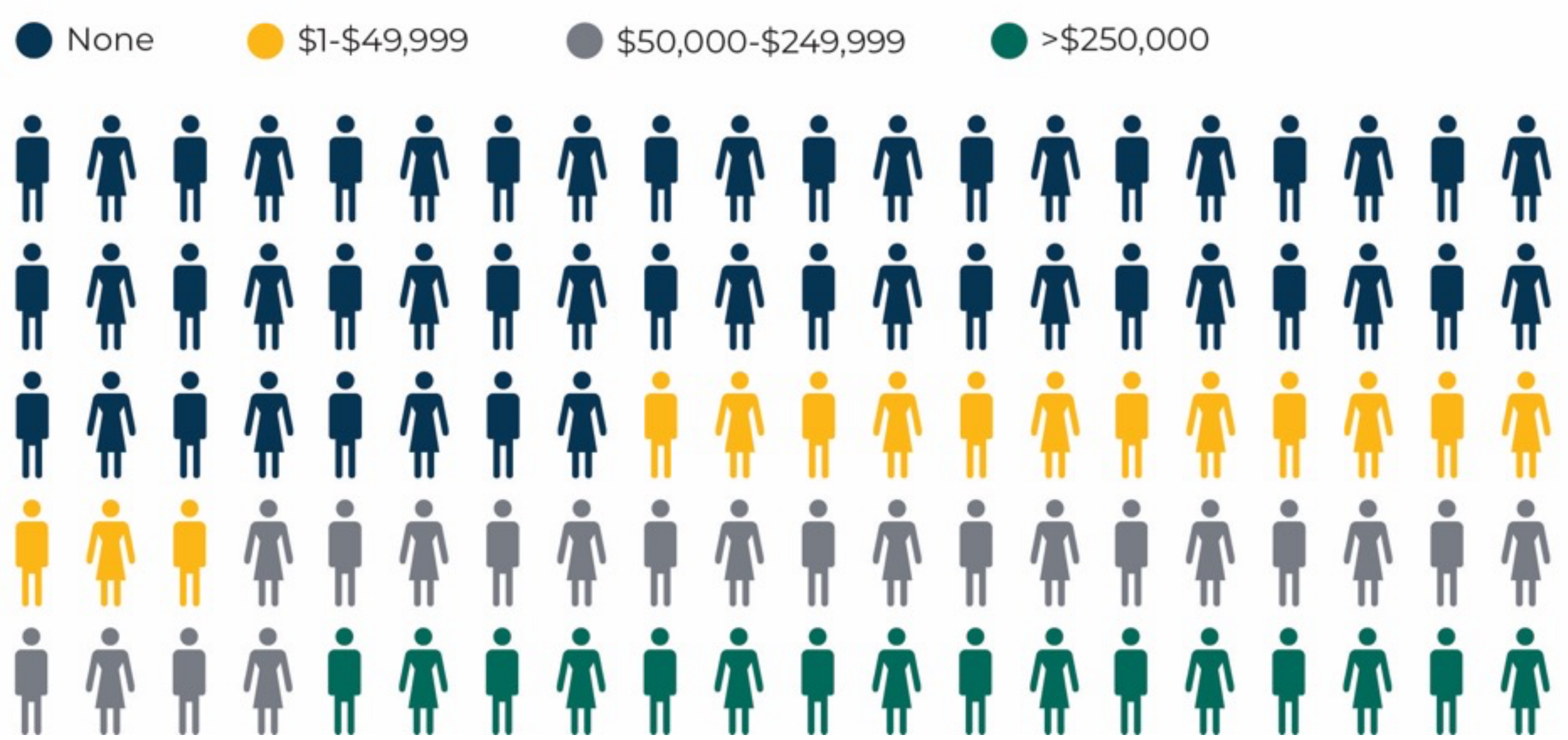
- This figure does not include dental, vision, or long-term care costs.
- Costs continue to rise in retirement and are tied to chronic health conditions.
- Half of Medicare beneficiaries spend at least 12% of their income on health care.
- Long-term care accounts for a lot of the increased health spending at later ages.
- Generally, more privileged groups spend more on healthcare in retirement in absolute terms, i.e., in total dollar amount, but not as a proportion of income.

Growing Burden of Long-Term Care Costs

- **Long-term care can refer to a wide range of services, including but not limited to nursing home care.** The costs of these different services also vary greatly.
- **We expect longevity to continue increasing, causing more older Americans to need long-term care.** And, we expect the costs of those services to continue rising.
- **The Greying of America will also continue:** By 2034, the number of adults aged 65 and over will outnumber children. By 2060, older adults will represent 23.4 percent of the U.S. population, while children will represent 19.8 percent.
- **There are tremendous disparities in long-term care costs among retirees today.** The median number of nights spent in a nursing home is just ten, while the average is 272 nights.
- **10 percent of retirees will spend three years in a nursing home with costs exceeding $300,000.** This far exceeds the median account balance of individuals ages 55-64, which is $88,000.

Variance in Long-Term Care Costs for Retirees

Figure 10



Washington State Long-Term Care Program

- **Washington became the first state to adopt a social insurance program to address long-term care needs in 2019.** Washington residents pay 58 cents of every $100 into the long-term care trust fund. After ten years, residents can claim up to $100 a day in benefits, with a lifetime cap of $36,500 (tied to inflation).
- **Access to benefits is possible after three years, if there is a catastrophic disabling event.**
- **While a lifetime cap of $36,500 may seem small, it could go a long way for the many older Americans with more manageable long-term care needs.**
- **Relatively few will spend years in a nursing home, the most expensive form of long-term care.** Many seniors simply need lower-cost services, such as a home health aide or home modifications, and receiving these services can prevent the move to a nursing home.
- **Washington State expects to reduce Medicaid costs with this program.**

Risk Stacked Upon Risk

- **When thinking about the different individual risks, many are not correlated.** But some, like an employment shock causing both earlier-than-expected retirements and poor investment returns late in a career, can be.
- **When stacking these risks together -** including investments, converting savings to life income, housing, health, and long-term care costs - even those who do plan and save at a reasonable level have a decent chance of failure.
- **The tail risk for some of these costs are simply unaffordable** given the wage levels of many Americans.
- **This leaves us with a choice:** Design stronger, forward-looking retirement infrastructure, or continue the band-aid approach, which typically does not take advantage of much prefunding, where these issues are addressed after the pressure builds, as happened with prescription drug costs.

Four Policy Solutions

1. Address Long-Term Care Costs
2. Use Existing Tax Incentives to Create Stronger Private Programs
3. Develop Better Annuities
4. Expand Social Security Benefits

Questions

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