



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

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Challenge & Change

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**NATIONAL INSTITUTE ON
Retirement Security**

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Six Key Findings

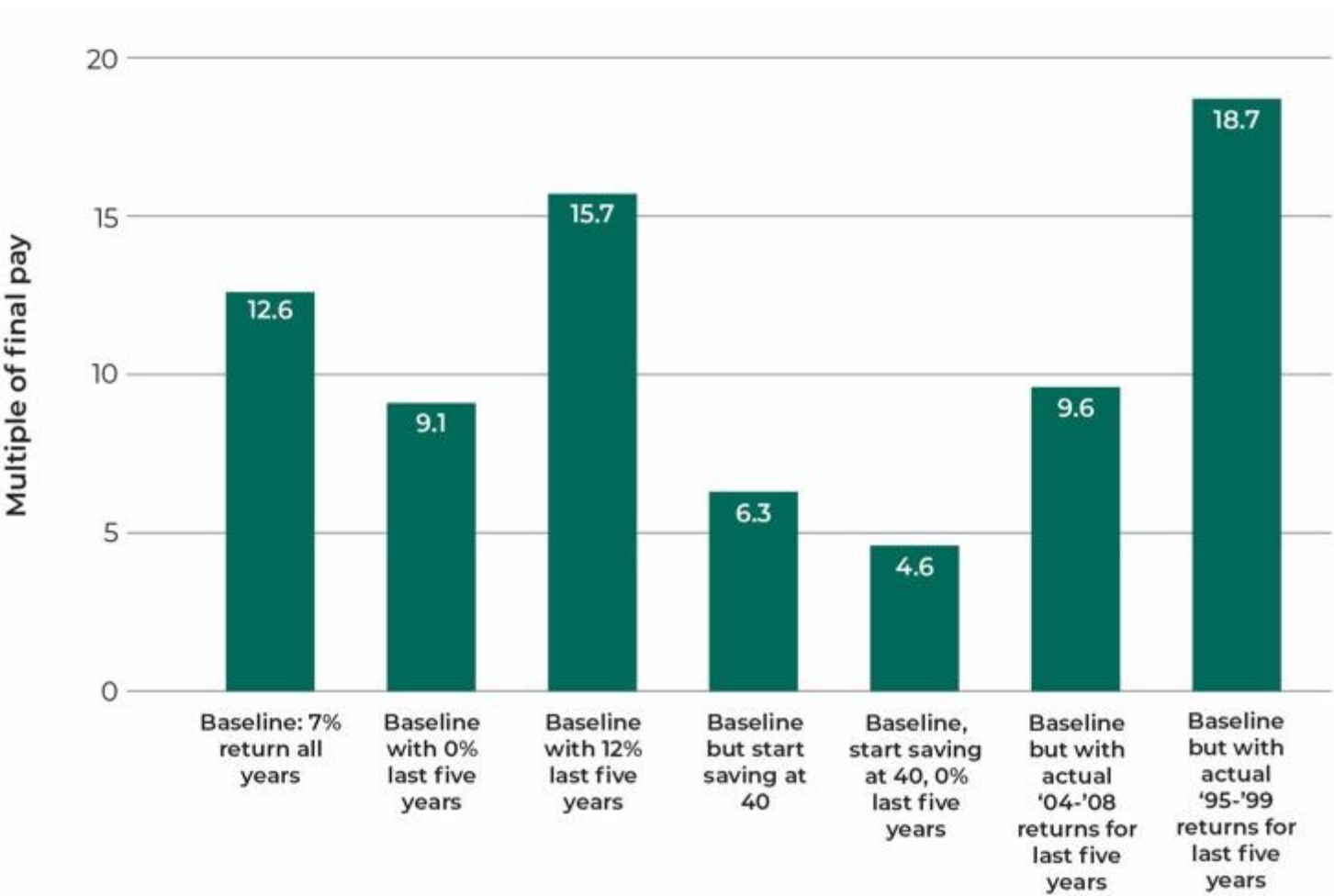
- **Saving early and continuously during working years is difficult for many workers.** Many workers may struggle to meet suggested retirement savings targets even if they have a desire to save.
- **Workers face market timing, interest rate, and longevity risks when they approach retirement age.** These 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.

DC Savings as Multiple of Final Pay at Retirement

Figure 1

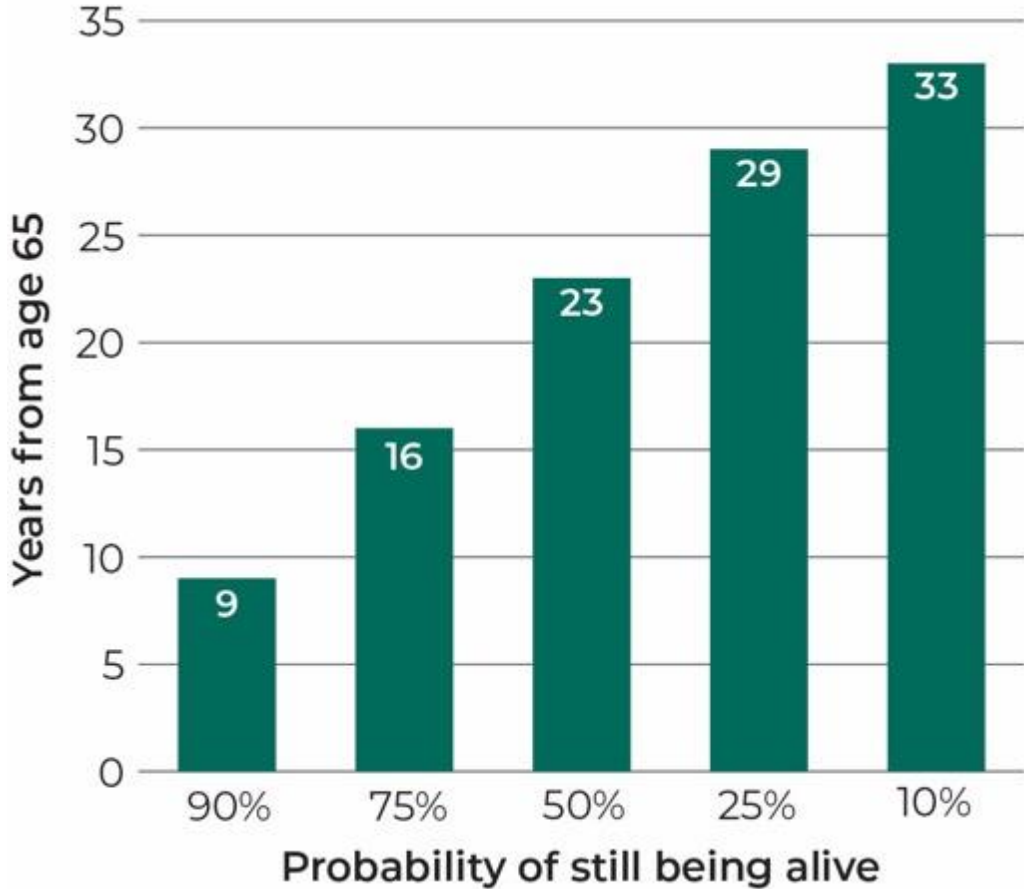


Generating Income from Savings Without Risk Pooling

- **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.

Planning Horizon, Women Aged 65+

Figure 7



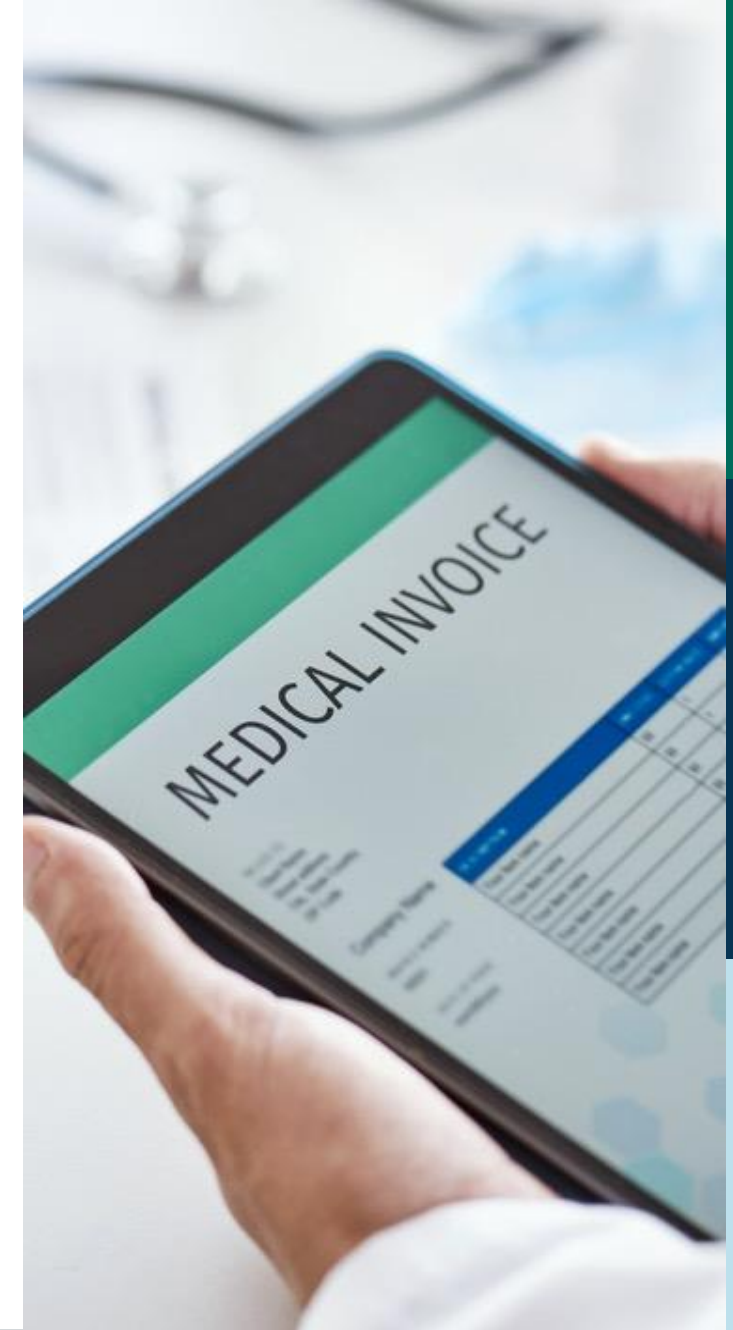
Housing Trends Raise More Concerns

- **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.

Healthcare Challenges Persist in Retirement

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

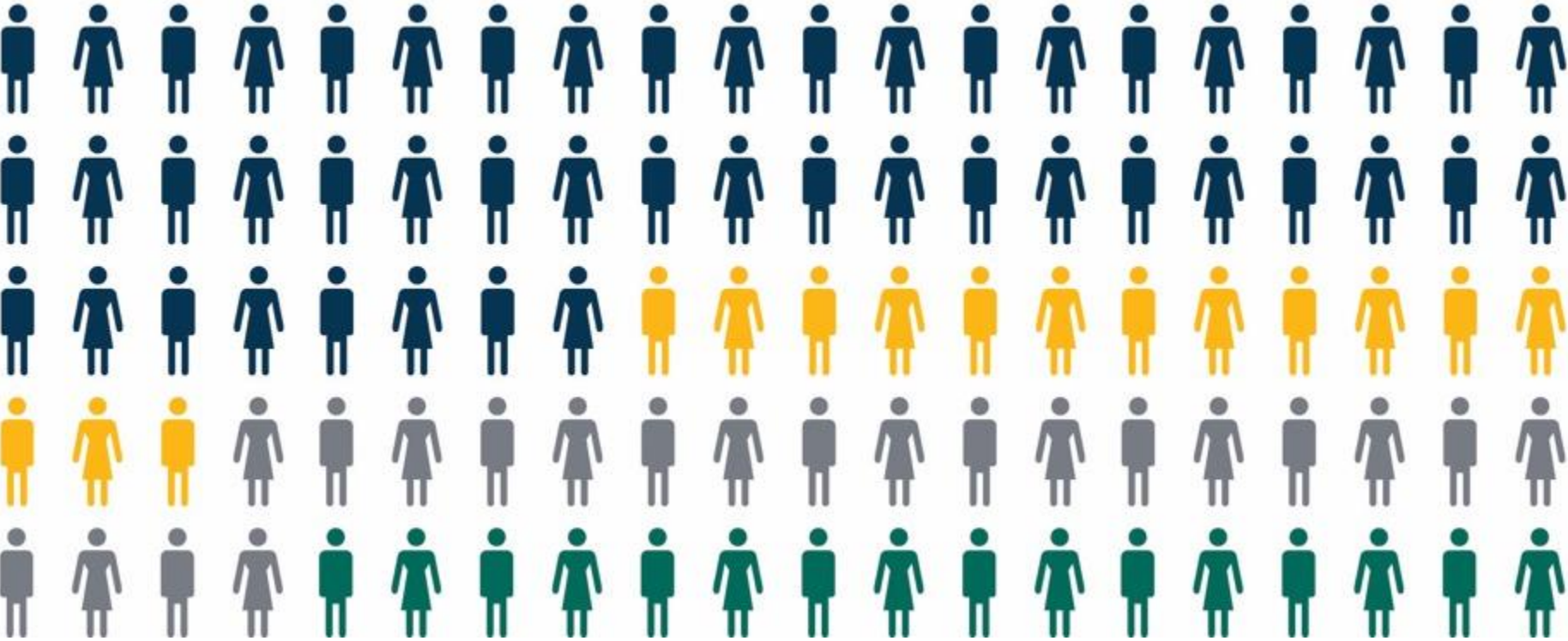
- This figure does not include dental, vision, or long-term care costs.
- Costs continue to rise in retirement and are tied to chronic health conditions.
- Half of Medicare beneficiaries spend at least 12% of their income on health care.
- Long-term care accounts for a lot of the increased health spending 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.



Variance in Long-Term Care Costs for Retirees

Figure 10

● None ● \$1-\$49,999 ● \$50,000-\$249,999 ● >\$250,000



Washington State Long-Term Care Program

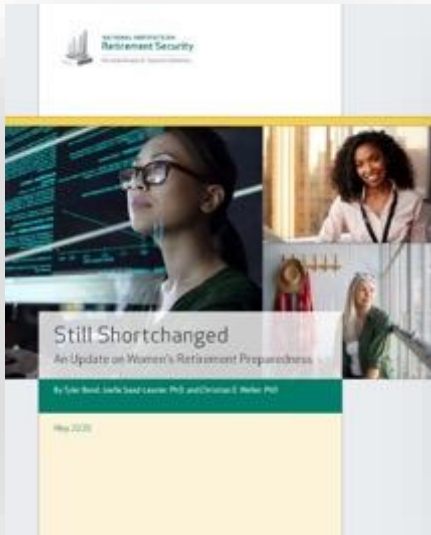
- **Washington became the first state to adopt a social insurance program to address long-term care needs in 2019.** Washington residents pay 58 cents of every \$100 into the long-term care trust fund. After ten years, residents can claim up to \$100 a day in benefits, with a lifetime cap of \$36,500 (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.**

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



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