Financial Wellbeing

BEING FINANCIALLY WELL IN RETIREMENT

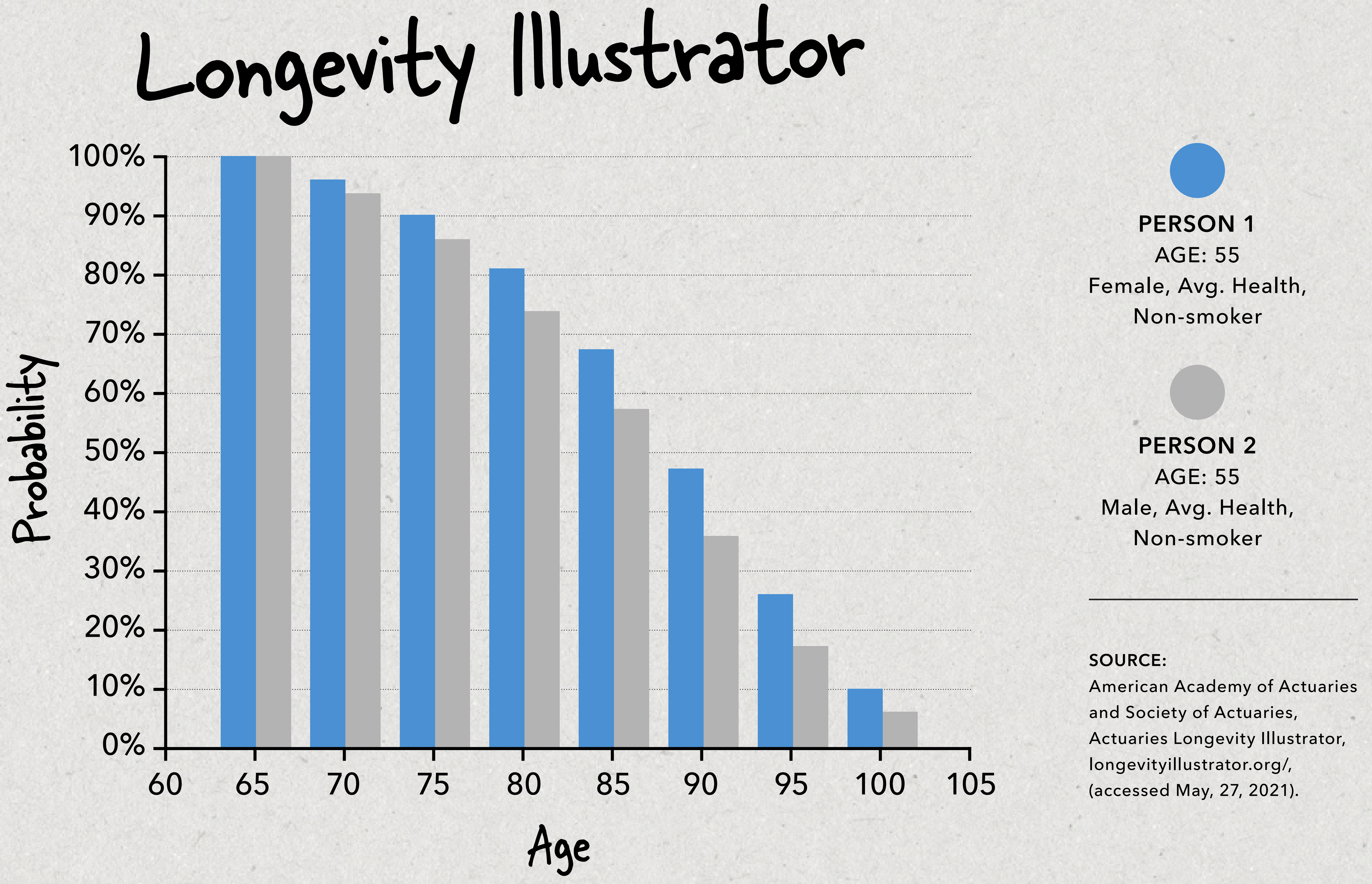
BY RUTH SCHAU, FSA, EA, FCA

Wellbeing is being comfortable, healthy, and happy, which seems to encompass the goals of retirement. Financial wellness is in the news a lot, and it generally includes strategies such as repayment of student loans, creating emergency savings, budgeting, paying off credit cards, and hopefully saving for retirement through defined contribution plans and health savings accounts. However, financial wellness doesn't stop at retirement; it continues with some modifications. Financial wellbeing consists of an interesting array of concepts, including some pre-retirement tactics, and a few new methods.

There is good news to share: Once retired, you don't need to budget for retirement savings and health savings accounts. In fact, if you don't have earnings, the rules prevent you from adding to these types of accounts.

Peace of Mind and Financial Confidence

YES PLEASE!



Financial wellbeing in retirement includes peace of mind. If you're retired with peace of mind, you aren't worried about where the money is coming from because you already know. You have a well-drafted budget that you are following and monitoring, and/or you have monthly income payments designed to offset your normal monthly living expenses. With the latter option, you also have the confidence of knowing that income is available throughout your retirement, including living beyond the average life expectancy (even living to 100+).

You might be wondering how you can gain both peace of mind and financial confidence to retire. One thing I have learned, and will pass along to you, is that you should have a trusted source to help you plan. Unless you're an expert, you need a planning partner, which may or may not be a person. Retirement-planning tools developed by a reliable source might be what you need if you are the do-it-yourself type. A trusted human partner might include a skilled attorney knowledgeable about your topic, or a financial advisor with the right credentials and experience. You might identify your expert through your employer's retirement-plan resources, looking online, in your community, and by asking friends.

If you have a defined benefit pension plan, consider choosing an annuity payment option. After all, your employer put this money aside for your retirement. If you consider that your employer created this portion of retirement for you, instead of you setting aside your own money, consider using it for routine needs such as housing, food, etc. Unless there is a good reason to the contrary, take the annuity from the employer, creating a retirement source to cover some or all of these routine needs. If you are married, consider a joint and survivor annuity option.

If you find yourself without a defined benefit pension plan (a lot of employees don't have one), don't worry. You'll be able to reach a similar position with your employer-sponsored, defined contribution plan. Times are changing and lifetime income options are being added to many defined contribution plans. If your employer doesn't offer one now, ask for one. We've seen this work if enough people ask for guaranteed lifetime income. Who benefits most from a lifetime income plan? That question can be answered quickly - just about everyone can benefit, but women might benefit the most. Without knowing specific health-related issues, women are expected to live longer than men, but that isn't the whole picture. On average, couples have the longest life expectancy.

According to the Longevity Illustrator summary: "There is a significant chance that you will live for many years beyond the average, and you should consider this possibility when thinking about your retirement. Reflecting on this possibility will allow you to consider the risks of outliving your financial resources, i.e., the chance of running out of money during your lifetime, which is referred to here as retiree financial longevity risk. This Actuaries Longevity Illustrator ("ALI") helps you do that by letting you see how long you might live. Take a look. You might be surprised by the results!"

Student Loan Repayments In Retirement?

IT DOES HAPPEN

Learning should never stop and keeping one's mind active is highly prescribed for retirees. However, one shouldn't need to take out educational loans to do so. There are many lower-cost options for learning, and in retirement, it's best not to take out new educational loans. But what about existing educational loans that are still being repaid? It seems that by age 65, 67, or whatever age retirement occurs, these loans would be repaid, since educational expenses probably occurred many years in the past.

Would it surprise you to know that many people in retirement have outstanding student loans? In fact, the average balance per borrower age 62 and older is $37,739.13[1].

Generally, this isn't a focus for retirement planning, but if you have an outstanding loan, you should either try to pay it off before retirement, or make sure to include the payment in your necessary monthly budget.

It is also important to understand that a Federal educational loan that falls behind in payments may result in your Social Security being reduced to make such payments. Unmet needs for outstanding loans in retirement can sabotage even your Social Security income.

$37,739.13

Average balance per borrower aged 62 and older[1].

Long-Term Care

INSURANCE FOR SICK DAYS IN RETIREMENT

As we start wrapping up the financial wellness topic, it is important to mention one final item: long-term care. None of us wants to be ill, disabled, or in need of extra care as we age, and yet this need may occur for all, or most of us if we live a long life. If you have a long-term care insurance policy, then you already have some protection for these additional health costs.

A recent study by PWC states that the average expected cost of long-term care is $172,000[2]. In general, we don't like to think about aging, and you might have seen older relatives do fine without having the funds to pay for this care, so it may be easy to ignore and hope for the best. However, those aging relatives may have had access to Medicare Supplement Plan F, and if you become eligible for Medicare in 2020 or later, you won't be able to buy Medicare Supplement Plan F, which provided very comprehensive coverage, including deductibles and nursing home coverage.

Without Medicare Supplement Plan F, there is a reason to plan for the latter part of your retirement years: high out-of-pocket costs. If you don't own a long-term care policy, you might have (or create) other options to fund these increased costs of care.

First is a health savings account (HSA), as long as you haven't already used it to fund other healthcare costs before, or in the initial years, of retirement. An HSA may be used to pay for long-term care costs and long-term care premiums, up to IRS limits for the year. The account won't be considered an HSA for a non-spouse beneficiary, and the fair market value becomes taxable in the year of death, so it may be best to spend this account appropriately during retirement.

The second is a Qualifying Longevity Annuity Contract (QLAC). The QLAC can be an answer to fund those increased health costs. It might surprise you that a QLAC can be found at a reasonable cost due to the deferral period (the time between the purchase and the payment starting date).

$172,000

Average expected cost of long-term care[2].

Qualifying Longevity Annuity Contract (QLAC)

THE NEW KID ON THE BLOCK THAT YOU SHOULD KNOW ABOUT

This lifetime-income option has been discussed for many years, and is now available for purchase. The QLAC is named by the IRS and is a lifetime-income option that becomes payable later in your retirement, generally between ages 80 to 85. If you purchase this option at retirement, you have created a source of income payable to you monthly once you reach the starting age. The reasons to consider this option include:

- Protecting a long life with guaranteed income at later ages to cover healthcare, cost-of-living increases since retirement began, rent, property tax increases, etc.
- Covering additional healthcare costs, increased prescription costs, including long-term care, even long-term care premiums
- Deferring taxes on income, as this is an allowable option to delay receipt of retirement benefits

If You Budgeted Before Retirement...

Without a regular paycheck and paycheck deductions for medical, dental, retirement savings, etc., how can you budget? I won't go into too much detail on this topic, but there is a good source published by the Society of Actuaries called, A Spending Plan for Retirement, Estimating Expenses. My simplified version is to review your monthly expenses before retirement and remove retirement savings, health savings accounts, and any employment expenses such as transit costs. Adjust the medical costs paid during employment to equal the Medicare premium, and add any supplemental Medicare premiums and prescription coverage, if purchased. If you own your residence, and if you have paid the mortgage in full before retirement, you can also exclude mortgage payments, but don't forget to include home insurance and property taxes, especially if they were once paid by your mortgage company. These are your responsibility now, so make sure to budget for them and pay them when due.

Once you have compiled your expenses, consider your sources of income. Where does the money come from to fund your expenses? If you have a pension payment from a defined benefit plan, does it cover the full amount of routine expenses, or do you need to add more? Depending upon your ability to take care of finances, you might request money from your employer plan on a quarterly or annual basis to fund your expenses. That should work for a while, but as we age, eyesight, hearing, cognitive issues, and other maladies arise, limiting our ability to manage finances and investments. Have you considered a backup plan for the future when you are no longer able to control your finances? This is one area that lifetime income can support. A guaranteed payment each month to your account can provide peace of mind that money to cover expenses is available, even when you cannot manage anymore. Automatic payments to a credit card or bank can keep everything on track for shorter periods when active management is not possible.

Emergency Savings

THE NEED CONTINUES

Emergency savings is still needed in retirement, although it may be needed for different purposes. Before retirement, savings might be used for breaks in employment. Retirement is a big break in employment, but it is hopefully planned, so you should not be using emergency savings for regular, monthly retirement expenses. If possible, continue adding to emergency savings, as it will be needed later in retirement for a helper, medicine, or other types of care. Unless you have a long-term care policy, are quite wealthy, or have additional lifetime income sources later in life, such as a Qualifying Longevity Annuity Contract (QLAC), you will need to preserve your emergency savings for these future needs.

How Will You Know If You Should Choose Lifetime Income?

THE ANSWERS TO THE THREE QUESTIONS BELOW WILL HELP YOU DECIDE.

1

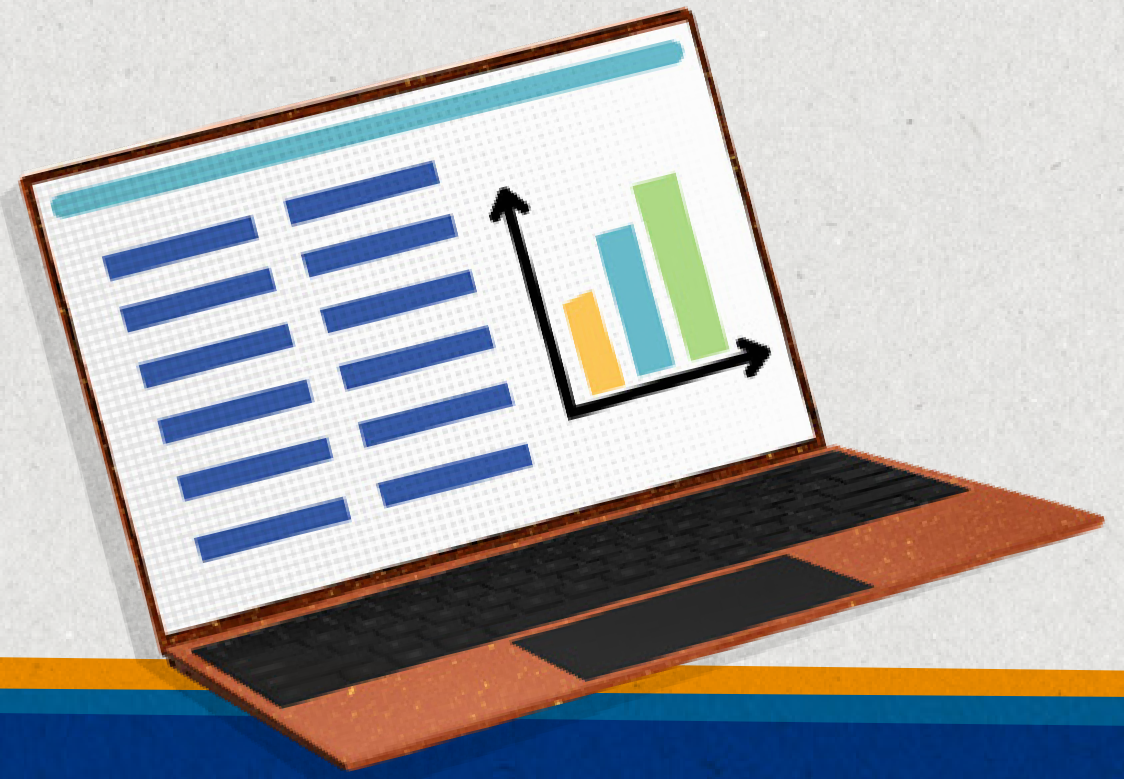
Do you think you or your spouse might live beyond age 84-86 (average life expectancy)? Check your life expectancy through *longevityillustrator.org* if you haven't done so already.

2

Are you sure about how much to spend each month in retirement, ensuring that you won't run out of money?

3

Would you like to enjoy retirement more, actually spending more, without running out of money?



If you answered yes to any of these questions, expand your knowledge of lifetime income. Good sources include *The Alliance for Lifetime Income*, and *Society of Actuaries: Designing a Monthly Paycheck in Retirement*.

If you're still on the fence about lifetime income options, consider the fact that retirees with a guaranteed income are happier and live longer[3].

Financial Wellbeing for All

The concept of financial wellness continues in retirement with financial wellbeing, and while the savings are exchanged for spending, the overall concept is quite similar. If you understand what provided peace of mind during your working years—such as a regular income stream, medical benefits, and the ability to enjoy time with family and friends—then it's possible to obtain those things throughout retirement. The income stream now arrives, not from your employer, but from your lifetime income insurer, providing you with the certainty of income throughout your life and your spouse's life, if married and elected.

A retirement income stream comes with an unexpected bonus, which may increase its value: a longer life, confidence in your retirement portfolio, and happiness.

In retirement, you gain more time to do what you want, since not only the weekends, but now the full week is available to enjoy activities, friends, and family. Plan ahead with your spending budget, add peace of mind with guaranteed lifetime income, spend and enjoy. Cheers to retirement!

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Ruth joined Pacific Life in 2021 and is a Sr. Director Pension Solutions in the Institutional Division. She is responsible for consulting with companies and their advisors to customize solutions, solving financial risks inherent in pension plans by utilizing Pacific Life's suite of pension risk products. Ruth continues her work with organizations that sponsor defined contribution (DC) plans, such as 401(k) or 403(b) plans, to provide guaranteed lifetime income options for plan participants.

Before joining Pacific Life, Ms. Schau was a Sr. Director, Practice Leader, Retirement Strategy at a large insurance company and a Partner at international consulting firms. She provided strategic consulting leading both DB and DC projects including plan design, guiding a shift from DB to DC, compliance, and M&A. She uses behavioral economics to improve plans for better sponsor and participant experience.

She is a Fellow of the Society of Actuaries (FSA), a Fellow of the Conference of Consulting Actuaries (FCA), and an Enrolled Actuary (EA). She is the Vice-Chair of the Society of Actuaries Aging and Retirement Steering Committee and a member of the National Academy of Social Insurance.

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Sources:

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