



# THE HIGH COST OF LIVING LONGER:

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Women and Retirement Health Care

## **FOREWARD BY MARCIA MANTELL:**

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### **Planning for Retirement Health Care**

Whether it's by nature or nurture, women are more often than not a family's caregiver. From our grandmothers to our mothers and now to us, that baton of caring for all others before taking care of ourselves has been passed.

It's important to recognize the multiple jobs women do in juggling careers and their unpaid role as family caretaker, as well as financial sacrifices made for which they are also penalized with lower benefits in retirement.

It is an unwelcome reality that putting others first may become a significant problem when we reach retirement. During our working years, many women took time out to look after children or family members. Most of us will, as a result, reach retirement with lower savings than our male counterparts.

With health care costs rising rapidly, and on course to be one of the largest expenses in retirement, it will be a challenge to make ends meet. With half of American women projected to live to about 90 and 25% of us living close to 100, our longevity means that we will likely live our last years alone. Driven by health care inflation and our increasing medical needs, this means we will face more years of health care expenses than men and greater costs for each additional year of life.

In this paper, "The High Cost of Living Longer: Women & Retirement Health Care," you'll find the numbers startling. As modern-day women, we need to acknowledge the challenges we will surely face and take the necessary steps to plan for future health and specialized care expenses.

As this paper highlights, additional savings when working can better prepare us for an expensive future. Finding appropriate products and earmarking certain investments can ensure that household assets are available to meet end-of-life needs for women.

Most of us will have provided care for others during our lives; it is important that we get the care we deserve at the end of ours. There's only one way for women to do this. Plan ahead.

## SECTION 1: INTRODUCTION

Women face a unique set of challenges when it comes to planning for retirement.

Increased longevity, lifetime income disparities, inadequate retirement savings, lower average Social Security disbursements (compared to men), rising divorce rates for those over 50,<sup>1</sup> the potential death of a spouse (who would often handle financial planning), and dwindling employment opportunities later in life are some of the hurdles women must overcome to attain a level of financial security in retirement.

This report examines several of the aforementioned issues by connecting demographic, economic, and social trends to retirement health care cost data, which reveals significant gaps in savings for many future retirees – but especially women. Findings that highlight the substantial financial burdens women will face in their final four years may spur current and future generations to re-evaluate long-term investment strategies and modify retirement plans to ensure that females, whose nest eggs must last longer, are prepared for the “Women’s Longevity Gap.”

The conclusion: women need to take charge of their future by engaging with life partners and financial advisors to develop investment strategies and retirement plans that address long-term fiscal and health care needs.

## SECTION 2: DATA ASSUMPTIONS

The paper draws upon HealthView Services’ retirement health care cost data, which integrates 50 million elements of health care claims into an actuarial- and medical- reviewed methodology to project retirement health care costs. The research also includes national statistics, trends, and surveys related to women and retirement savings.

Unless otherwise indicated, projections in this paper assume that total health care costs include Medicare Parts A (hospitalization – subsidized through payroll deductions), B (doctor visits), D (prescription drugs), supplemental Medigap policy F, and all related out-of-pocket expenses. Calculations are in future dollars and based on the national average. (In certain tables, present value is also provided.)

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<sup>1</sup> Brown, S. L., and I.-F. Lin. “The Gray Divorce Revolution: Rising Divorce Among Middle-Aged and Older Adults, 1990-2010.” *The Journals of Gerontology Series B: Psychological Sciences and Social Sciences* 67.6 (2012): 731-41. Web. <https://www.bgsu.edu/content/dam/BGSU/college-ofarts-and-sciences/NCFMR/documents/Lin-The-Gray-Divorce.pdf>

## SECTION 3: THE CHANGING RETIREMENT LANDSCAPE

In the not-too-distant past, many retired Americans – most of whom were married – enjoyed pensions, employer- or union- sponsored health insurance plans (that included prescription drug coverage), and Social Security benefits with fairly substantial cost-of-living adjustments (COLAs).

Unfortunately, as health care costs escalate, life expectancies increase, pensions dwindle, divorce rates rise, and Social Security COLAs are outpaced by health care inflation, future retirees – and especially women – may be hard-pressed to create enough income to last the rest of their lives.

HealthView’s data shows the magnitude of the financial challenges women will face during retirement. Average expected health care costs (for Medicare B, D, and a supplemental insurance policy) for a healthy 65-year-old women retiring this year (living to age 89) are projected to be \$235,526 (\$153,079 in today’s dollars). A man of the same age (living to age 87) will need \$199,946 (\$135,321). Adding all out-of-pockets, dental, and vision increases a woman’s health care outlays to \$306,426 (\$199,951) compared to \$260,422 (\$176,769) for men.

### Differential in Earnings and Savings

According a report from the U.S. Bureau of Labor Statistics, women in the United States are paid approximately 81% for every dollar earned by men. (See Table 1 below.\*)

**Table 1 – Median Weekly Earnings and Gender Earnings Ratio by Race/Ethnic Background\***

Racial/ Ethnic Background	2015				2014 (in 2015 dollars)			
	Women	Men	Female Earnings as a % of Male Earnings of Same Group	Female Earnings as a % of White Male Earnings	Women	Men	Female Earnings as a % of Male Earnings of Same Group	Female Earnings as a % of White Male Earnings
All Races/ Ethnicities	\$726	\$895	81.1%	N/A	\$720	\$872	82.5%	N/A
White	\$743	\$920	80.8%	80.8%	\$735	\$898	81.8%	81.8%
Black	\$615	\$680	90.4%	66.8%	\$612	\$681	89.9%	68.1%
Hispanic	\$566	\$631	89.7%	61.5%	\$549	\$617	89.0%	61.1%
Asians	\$877	\$1,129	77.7%	95.3%	\$842	\$1,081	77.9%	93.8%

Notes: Hispanic may be of any race. White, black and Asian workers include Hispanics. Annual average of median weekly earnings. Source: U.S. Bureau of Labor Statistics, Median weekly earnings of full-time wage and salary workers by selected characteristics, Annual Averages <http://www.bls.gov/cps/cpsaat37.pdf> (retrieved February 2016)

\*Full-time workers 16 years and older, 2014 and 2015

\*It is understood that multiple sources of income-related data between genders is available. For this report, we have chosen to use The Bureau of Labor Statistics.



Wage gaps can be even larger for minorities: among women who hold full-time jobs, African-American women are paid, on average, 66.8% – and Latinas just 61.5% – for every dollar earned by white, non-Hispanic men.

Aside from the current imbalance between genders, wage disparity may have even deeper ramifications for women over time, as lower lifetime earnings will presumably translate into smaller 401(k) balances and reduced Social Security benefits – leading to a limited retirement income. Couple this with higher health care costs (due to longer life expectancies), and there is a genuine possibility that many women could outlive their savings.

In many traditional American households, men often handled retirement planning, which created a gap in both understanding and engagement among women. According to the Department of Labor, despite the 63 million wage and salaried women (age 21 to 64) working in the United States, just 44% were involved in a retirement plan in 2015.<sup>2</sup> (It is worth noting that only 23% of financial professionals are women, which may also lead to lower female participation.<sup>3</sup>)

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<sup>2</sup> <https://www.dol.gov/sites/default/files/ebsa/about-ebsa/our-activities/resource-center/publications/women.pdf>

<sup>3</sup> [http://corporate.prudential.com/media/managed/wm/media/Pru\\_Women\\_Study\\_2014.pdf](http://corporate.prudential.com/media/managed/wm/media/Pru_Women_Study_2014.pdf)

However, according to other sources, this trend may be changing.

Prudential Financial's most recent "Financial Experience and Behaviors among Women" survey shows that female participation in long-term planning is on the rise. While single, divorced, and widowed women have no choice but to oversee their finances, 27% of married women surveyed say they now have "taken control" of their own financial and retirement planning (up from 14% in 2006).<sup>4</sup>

Also, a recent Vanguard report shows that women are 14% more likely than men to participate in their workplace savings plan. This indicates that when given the opportunity to save, women take advantage of employer-offered benefits. Unfortunately, despite greater participation, similar risk tolerance, and higher contribution rates (7% to 16% more), women's account balances averaged \$79,572, compared to \$123,262 for male participants.<sup>5</sup>

The difference (in the Vanguard study) may be traced back to higher average wages for men than women. Therefore, it is possible that the retirement savings gap may not originate from female workers' aversion to save, but in the percentage of income that they can afford to invest due to gender income disparities.

## **Social Security**

Social Security provides a significant portion of overall household income for many retired women. Even now, 36% of single female beneficiaries 65 and older rely on Social Security as almost their only source (90%) of income.<sup>6</sup>

Gaps in employment from raising children and caring for family members will have a long-term impact on women's total benefits. In a study conducted by the Pew Research Center, four-in-ten mothers have taken a significant amount of time off from work, and 42% cut their work hours to care for a child or other family member.<sup>7</sup> These interruptions in employment can have a snowball effect: not only will potential savings be diminished, but accumulated Social Security earnings will be lower as well, resulting in a reduced Primary Insurance Amount (PIA).\*

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\*PIA determines monthly benefits and is based on the highest 35-year average of a worker's earnings history.

4: <http://blogs.wsj.com/experts/2015/10/29/why-there-are-so-few-female-financial-planners/>

5: [http://corporate.prudential.com/media/managed/wm/media/Pru\\_Women\\_Study\\_2014.pdf](http://corporate.prudential.com/media/managed/wm/media/Pru_Women_Study_2014.pdf)

6: Young, Jean A. "Women vs Men in DC Plans." (2015) <https://institutional.vanguard.com/iam/pdf/GENDRESP.pdf>.

7: U.S. Social Security Administration, Income of the Population 55 or Older, 2012 (April 2014), available at [http://www.ssa.gov/policy/docs/statcomps/income\\_pop55/](http://www.ssa.gov/policy/docs/statcomps/income_pop55/)

Currently, women over age 65 earn approximately \$13,150 in annual Social Security benefits, compared to about \$17,106 for men of the same age.<sup>8</sup> The 23% differential can, in part, also be attributed to more women filing for Social Security at 62. For many, this is a necessity rather than a choice. Claiming before Full Retirement Age (FRA)\* can reduce benefits by as much as 25% (while waiting until age 70 would increase income by an additional 32%). Thus, the decision to file early may reduce a woman's lifetime retirement income by tens of thousands of dollars. (To ensure the highest possible lifetime benefit, it is important for all retirees to seek the advice of financial professionals who are well versed in optimizing Social Security income.)

It is important to note that Social Security COLAs are expected to rise by an average of 2.6% annually (after no increase in 2016 and a 0.3% increase for 2017).<sup>9</sup> This will fall far short of the pace of health care costs, which is expected to increase by an average of approximately 6% annually for the foreseeable future. For women who rely on Social Security, this disparity will certainly impact retirement budgets.

To make matters worse, last year, Congress modified two income-generating strategies known as "File and Suspend" and "File Restricted." By diminishing the potential advantages of these filing options, Congress essentially reduced Social Security income and survivor benefits for millions of future retirees.

### **Retirement Health Care Cost Index**

Social Security was never intended to be an individual's only source of retirement income, as it only replaces approximately 40% of an average earner's wages.<sup>10</sup> Also, as health care inflation increases at a substantially greater rate than COLAs, benefits will not be sufficient to meet combined living and health care expenses.



\*FRA for female born after 1943 is either 66 or 67.

<sup>8</sup> <http://www.ssa.gov/policy/docs/statcomps/supplement/2014/5a.html>.

<sup>9</sup> <https://www.ssa.gov/oact/TR/TRassum.html>

<sup>10</sup> "Understanding the Benefits." United States Social Security Administration, January 2014. <http://www.ssa.gov/pubs/EN-05-10024.pdf>

To gain some perspective, let’s examine HealthView’s Retirement Health Care Cost Index to illustrate how much Social Security income will be required to cover total retirement health care costs.

**Table 2 – Retirement Health Care Cost Index by Age**

Age/Life Expectancy	Social Security Claiming Age	Primary Insurance Amount	Total Benefits	Total HCC	Difference
55/89	66 (FRA)	\$1,096	\$532,926	\$522,827	\$10,009

Based on the current data highlighted in Table 2, a 55-year-old female living to age 89 will see approximately 98% of her cumulative gross Social Security income consumed by retirement health care expenses.

Previous generations, with stable pensions, generous Social Security COLAs, and employer-subsidized supplemental insurance, spent little time worrying about how to pay for health care. Because of this prevailing mindset, most Americans are still unaware of the critical relationship between health care costs and Social Security income. Those who plan to rely heavily on benefits to cover essential household expenses could find themselves in jeopardy as rising health care expenses steadily exhaust monthly disbursements. (See Table 2A.)

**Table 2A – Retirement Health Care Cost Index by Age**

Age/Year	Social Security Benefits	In-Retirement Health Care Costs	Index
66/2027	\$15,103	\$9,212	61%
71/2032	\$17,255	\$12,857	75%
76/2037	\$19,714	\$17,840	90%
81/2042	\$22,523	\$24,533	109%
86/2047	\$25,732	\$33,425	130%
89/2050	\$27,873	\$39,825	143%
<b>Lifetime Total</b>	<b>\$500,834</b>	<b>\$522,827</b>	<b>104%</b>



## RETIREMENT HEALTH CARE COST COMPARISON: SINGLE MEN VERSUS WOMEN

It is true that women, on average, will pay more for health care in retirement than men, but the reason is primarily because of longevity, not the use of medical services. Table 3 provides a comparison of projected health care costs of a healthy man and woman living to the same age.

**Table 3 – Comparison of Total Health Care Costs for 55-Year-Old Male and Female living to the Same Age**

Age	Retirement Age	Life Expectancy	Male Health Care Costs	Female Health Care Costs	% Difference
55	65	87	\$432,648	\$433,589	.02%

As the totals indicate, the difference is negligible when longevity is the same. Women inevitably pay more for health care simply because they live, on average, two years longer than men.

Factoring in longevity projections, let’s examine total health care costs (Medicare Parts A, B, D, a supplemental policy F, dental, and all out-of-pockets) between a healthy male and female broken down by current age.

**Table 4 – Total Retirement Health Care Costs for Healthy Males and Females in Ten-Year Increments**

Age	Retirement Age	Male Life Expectancy	Male Health Care Costs	Female Life Expectancy	Female Health Care Costs	% Difference
65	65	87	\$267,395	89	\$314,673	17.7%
55	65	87	\$444,007	89	\$522,827	17.8%
45	65	87	\$758,393	90	\$966,952	27.5%*

As Table 4 reveals, a healthy 55-year-old woman will pay \$522,827 (\$253,594 in today’s dollars) in retirement health care expenses – almost \$79,000 more than a male – because she will live two years longer. Looking ahead, because of rising health care inflation and an additional year of life expectancy, a 45-year-old single female will pay 27.5% more in health care costs than a male of the same age.

\*Includes additional year of life expectancy. These numbers do not include costs associated with long-term care.



### Married Women and Retirement Health Care Costs

According to the 2014 Current Population Survey (CPS), husbands are, on average, 2.3 years older than their wives.<sup>11</sup> Taking this into account, a surviving female spouse may become singularly responsible for all personal living expenses for more than four years after her husband passes. According to HealthView data, a 55-year-old woman who is two years younger and projected to live two years longer than her husband will be responsible for \$146,471 in health care expenses (an average of \$36,618 per year) over her final four years – certainly a sizable end-of-life expense for someone living on a fixed budget.

**Table 5 – Four Years of End-of-life Health Care Costs for 55-Year-Old Female**

Current Age	Life Expectancy	Cumulative End-of-Life Health Care Costs
55	89	\$146,471

All too often, before a surviving spouse is facing life on her own, the couple may deplete family savings to pay for the husband’s end-of-life care. After his death, she will now be singularly responsible for all essential expenses, including her own medical and long-term care, with only the remaining savings and Social Security survivor benefits (or possibly a pension and/or home equity that can be converted into an income stream).

Americans can effectively address the Woman’s Longevity Gap through annuities, longevity insurance, life insurance, or increased contributions to a 401(k) and/or tax-free HSA. Some advantages of these investments include guarantees for insurance policies and possible employer contributions to both a 401(k) and HSA. Another option for the couple to cover the gap is to earmark \$25,500 (growing at 6%) in an account dedicated to retirement health-care costs.

<sup>11</sup> <https://www.census.gov/hhes/families/data/cps.html>

## Women and Long-Term Care

Whether someone will eventually need long-term care (LTC) is a difficult question to answer; however, the U.S. Department of Health and Human Services predicts that 70% of people turning 65 will need some form of LTC in their lifetimes.<sup>12</sup> Medicare covers a limited amount of these services (such as up to 100 days of skilled care in a nursing home under certain conditions). Unfortunately, the majority of expenses accrued during a lengthy stay will inevitably become the patient’s responsibility.

There are three types of long-term care.

Nursing home care is medically necessary and usually requires a residential stay. Medicare covers required services such as physical therapy or post-surgery nursing, but does not pay for custodial care. (Medicare Part A may cover some costs in a sanctioned rehabilitation facility – but under strict parameters and time constraints.) According to a 2013 report from the Center for Disease Control, 68% of nursing home residents are women;<sup>13</sup> this can be attributed to longer life spans, which also reduces the likelihood that women will have a living spouse to serve as caretaker.

Assisted living may or may not require inpatient treatment, but some care is necessary, such as redressing bandages. These are largely state-regulated and sometimes referred to as residential care, adult congregate care, or domiciliary care. While private insurance may cover some of the cost, Medicare does not.

Home health care provides several medical-related services that can be administered in the home, such as injections, nutrition therapy, and wound care. The motivation behind giving care at home is lower costs, patient comfort, and independence.

Table 6 displays the probability related to the type of care a 55-year-old woman may need during her final four years. According to the data, she has close to a 40% chance of needing home health care, and a 32% chance of requiring a nursing home stay.

**Table 6 – Need for Long-Term Care Services for a 55-Year-Old Woman Living to Age 89  
(Weighted National Average)**

Nursing Home	Assisted Living	Home Health Care
32.10%	28.07%	39.83%

<sup>12</sup> <http://longtermcare.gov/the-basics/who-needs-care/>

<sup>13</sup> [http://www.cdc.gov/nchs/data/nsltcp/long\\_term\\_care\\_services\\_2013.pdf](http://www.cdc.gov/nchs/data/nsltcp/long_term_care_services_2013.pdf)

Table 7 provides a future-cost breakdown for each LTC category for a 55-year-old woman.

**Table 7 – Projected Costs of Long-Term Care Services for a 55-Year-Old Woman Living to Age 89 (Weighted Average Length of Stay of 2.19 Years)**

Age	Nursing Homes	Assisted Living	Home Health Care*
86-89	\$694,743	\$258,934	\$193,098

\*Based on 8 hours of care per day for 5 days per week.

These totals can be daunting; however, they do not account for the probabilities displayed in Table 6. By combining the sum of individual LTC options based on probabilities, a “blended” long-term care estimate is created.

**Table 8 – Blended Rate for LTC Services for a 55-Year-Old Woman Living to Age 89**

LTC Service	Probability	Total Costs	Adjusted Cost
Nursing Home	32.10%	\$694,743	\$223,047
Assisted Living	28.07%	\$258,934	\$72,683
Home Health	39.83%	\$193,098	\$76,901
Total Blended Cost			\$372,631

The \$372,631 adjusted total exhibited in Table 8 represents the blended LTC rate, which combines the probability of need and future costs for each service. This savings goal is a significant reduction from the almost \$700,000 a 55-year-old woman might need to cover over two years of nursing home care.

With over thirty years to prepare, a healthy 55-year-old has numerous options to address this expense (which, at the very least, will provide a reasonable level of coverage for services). Choices include a \$61,200 lump-sum investment growing at 6% annually; increased contributions to a 401(k) and/or HSA; long-term care insurance; riders in annuity and life products; longevity insurance, or any combination mentioned above.

Unless pre-retirees effectively plan for health care and LTC costs in retirement, many Americans, and particularly women, could see their family legacies consumed by end-of-life costs. Using a blended rate in the planning process makes the goal of affording end-of-life care more attainable.

## CASE STUDY

The following case study, which follows a hypothetical couple using the latest actuarial data, shows the sizeable financial obstacle a healthy female pre-retiree may face in retirement.

### Assumptions

Anne is 58, and her husband, Robert, is 60. The Ohio couple is setting their sights on a retirement date within five to seven years. Robert currently works for a manufacturing company, while Anne works in sales. They have three grown children out of college and are planning to rely on their combined Social Security, 401(k)/IRA disbursements, and savings for the bulk of their retirement income. They will each wait until their Full Retirement Age (FRA) to file for Social Security.

**Table 9 – Anne and Robert’s Total Retirement Income**

	Life Expectancy	Primary Insurance Amount (PIA)	Annual Social Security Income	Annual Income from Investments	Total
<b>Robert</b>	87	\$1,800	\$21,600	--	
<b>Anne</b>	89	\$1,030	\$12,360	--	
<b>Combined</b>			\$33,960	\$35,000	\$68,960

At first glance, the couple should be comfortable with their current projected annual retirement income of just under \$69,000, but a closer observation reveals that because of life expectancy and age differential, Anne will face more economic hardships – especially in her later years – than Robert. By the time Anne is 85 years old, she and Robert will be need to dedicate approximately \$54,000 from their \$69,000 in projected annual income to pay for health care expenses.

After Robert’s death, Anne’s average health care costs will total more than \$31,000 per year.

It is highly unlikely that a young American couple just starting a family spends much time contemplating the impact of missed earnings on Social Security disbursements. However, as we shall see, Anne’s sacrifice will have significant long-term implications on her Social Security earnings later in life.

When Anne was 22, she began working full time in sales and earned \$12,111 (equivalent to \$35,000 in 2016 dollars). At age 31, she had the couple’s first child (their second and third would come two and five years later, respectively), so she chose to stay home to take care of the family until their youngest started high school.

Anne returned to work part-time at age 51, and then full-time at 56, but her total Social Security contributions suffered because of her extensive time out of the workplace. Upon retirement, Anne will earn \$1,030 per month if she chooses to claim at FRA.

Looking at the bigger picture, if Anne had maintained steady employment and earned a 3% salary increase per year (based on her original salary), her PIA would have been \$1,437. Because of her earnings gap, Anne will earn \$187,045 less in Social Security income over a 23-year retirement.

### Survivor Benefits

Based on the couple’s life expectancy projections, Anne will outlive Robert by two years (and remember that she is also two years younger). As the lower earner, she will be entitled to 100% of the benefit Robert will receive at the time of his death, which is calculated based on the age he originally claims.

Earlier in the paper, we mentioned Congress’ adjustments to Social Security claiming options. As revealed in Table 10 below, if Robert filed at FRA, as opposed to optimizing under the old rules, Anne’s survivor benefits would decline by \$58,459 during the four years she is expected to live past her husband.

**Table 10 – Difference in Survivor Benefits Due to Change in Claiming Strategies**

	Optimal Claiming Before Law Change	Claiming At FRA After Law Change	Difference
Survivor Benefits for 4 years	\$239,594	\$181,135	<b>-\$58,459</b>
NPV	\$100,135	\$75,703	-\$24,432

To make matters worse, because of the recent changes to filing options, the couple will also lose over \$175,000 in total Social Security benefits prior Robert’s passing.



## Anne’s Health Care Costs in Final Four Years of Life

**Table 11 – Anne’s Health Care Cost in Final Four Years of Life**

Age	Health Care Costs (Future Dollars)	Health Care Costs (Today’s Dollars)
86	\$28,349	\$12,391
87	\$30,154	\$12,796
88	\$31,945	\$13,161
89	\$33,768	\$13,507
<b>Total</b>	<b>\$124,216</b>	<b>\$51,854</b>

As Table 11 indicates, Anne will be responsible for over \$124,000 in health care costs from age 86 to 89. The couple can eliminate Anne’s four-year gap of by investing approximately \$26,000\* today. If available, she and Robert can also take advantage of employer contributions through her 401(k) and/or an HSA to help address the Women’s Longevity Gap.

To expand further, Anne’s total cost of health care in retirement is projected to be \$447,590 (or \$237,342 in today’s dollars.)

### Anne’s Long-Term Care

Based on current data for a 58-year-old woman living in Ohio, Table 12 provides probability projections for Anne’s future long-term care needs.

**Table 12 – Weighted Probability for Need of Long-Term Care Services for Anne**

Nursing Home	Assisted Living	Home Health Care
34.19%	29.89%	35.92%

Table 13 offers Anne’s possible long-term care costs by setting.

**Table 13 – Total (Potential) Costs of Anne’s Long-Term Care Services  
Based on an Average Length of Stay of 2.23 Years**

Year	Nursing Home	Assisted Living	Home Health Care
86-89	\$540,356	\$275,511	\$102,577

\*Growing at 6% annually

Finally, Table 14 combines probability and cost projections to create a blended estimate of Anne’s possible future LTC expenses.

**Table 14 – Total Blended Costs of Anne’s Long-Term Care Services**

	Nursing Home	Assisted Living	Home Health Care	Total
Final Weighted Cost	\$184,748	\$82,353	\$ 36,847	\$303,948

If Anne requires long-term care, she will face a substantial bill at a time when she may least be able to afford it; therefore, it is critical for the couple to evaluate funding options. A \$59,500 lump-sum investment growing at 6% annually can generate nearly \$304,000 needed for Anne to cover potential LTC costs. The couple can also investigate the added benefits of a long-term care policy; a rider in a life or annuity policy, or some combination of insurance and an investment program. Also, it would be wise for the couple to consider an estate plan as a means of protecting their legacy.

Table 15 provides a cumulative snapshot of the financial obstacles Anne will face in her final four years of life.

**Table 15 – Anne’s Health-Related Expenses (Including Blended LTC Costs) in Her Final Four Years\***

Type of Care	Cost
Health Care Costs After Robert’s Death	\$124,216
Blended LTC Costs	\$303,948
<b>Total</b>	<b>\$428,164</b>

Health care costs and possible payments for long-term care services will result in over \$428,000 in health related expenditures through Anne’s final four years of retirement.

As the surviving spouse with reduced savings and Social Security benefits, Anne may spend her final years struggling to keep up with her medical expenses. This estimated cost does not account for the possibility that Anne could live even longer and incur even more health-related costs.

Anne and Robert can eliminate the Women’s Longevity Gap by investing \$85,500 today, or, as noted above, they may also take advantage of other savings options that include employer contributions and insurance products.

\*Does not include costs associated with long-term care.



## PLANNING

Despite the data, there is still reason for optimism. With an adequate time horizon, a knowledgeable advisor, and a comprehensive savings strategy, most women can create a practical investment program to reduce or eliminate their end-of-life shortfall.

### **Health Care**

As mentioned in the paper, a 55-year-old woman can allocate \$25,500 (growing at 6%) to cover \$146,471 of health care expenses in her final four years of life. If she only wants to address \$72,932 in basic Medicare premiums (Parts B and D), she could set aside \$12,700 (also growing at 6%). Other options include increasing 401(k) or HSA contributions by approximately \$25.00 per pay period (assuming 26 pay periods) based on an employer match. If that isn't feasible, an investment of \$6,600 today will at least take Medicare Part D premiums off the table (since Medicare Part B premiums are deducted directly from Social Security benefits).

Insurance products offer unique benefits to future retirees, including principal guarantees, tax advantages, and the possible reduction of Medicare surcharges. Other options to consider are deferred annuities, indexed annuities, longevity insurance, and life insurance.

Working with an advisor or agent to develop the appropriate mix of capital markets and insurance products is the key to minimizing the impact of future health care costs.

### **Long-Term Care**

To properly plan for long-term care, women should consider LTC insurance, LTC riders available in annuities and life insurance, a chronic illness rider, and/or hybrid LTCI life products. Current age, health conditions, coverage, and inflation options can determine pricing, so it is important to review personal details with a financial advisor or agent.

Women and couples may also consider the "self-insurance" option by establishing a separate investment program dedicated to address future LTC needs.

Finally, women and couples must work with advisors and attorneys to develop estate plans, including irrevocable and income-only trusts, as a means of protecting Medicaid-countable assets.

## CONCLUSION

As the data indicates, women may face substantial financial challenges in retirement; however, despite the cost projections, most pre-retired women still have time to significantly reduce or eliminate the burden associated with the Women's Longevity Gap.

Because of wage differentials and lapses in employment (often for child or family care), most women will earn less over their lifetimes than men. This double-edged sword not only impacts salaries, but also reduces PIA – and ultimately, Social Security benefits (23% less than men, on average). Couple this with longer life expectancies and spousal age differences, and many women could face a four-year window at the end of their lives in which they will be solely responsible for all household expenditures – including health care. A healthy 55-year-old woman is projected to pay over \$146,000 for health care premiums and out-of-pocket costs in her final four years alone.

On a positive note, surveys show that women are increasing participation in retirement planning, but more must be done to confirm that they will be prepared to address future health care costs. Through a deeper understanding of how life expectancy, Social Security, health care, and long-term care costs specifically impact women, advisors can highlight these challenges, engage women in the planning process, and tailor investments to achieve financial security throughout retirement.

With an adequate time horizon, and a comprehensive savings strategy, most women can still attain a comfortable level of financial stability throughout retirement.

