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JIM: People don't plan to fail, they just fail to plan, and it's never more true than when you think about longevity in retirement. Joining us today is Kelly Ferrin, a repeat guest who is a gerontologist, author, and speaker on the subject of longevity, the risks associated with it, and how to properly plan for retirement. Welcome, Kelly.

00:26

KELLY: Thank you, Jim, always a pleasure.

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JIM: I'm so glad to have you back again. I am always fascinated by the topic that you study which is gerontology and the study of aging, because one thing is I'm just fascinated by people that have had the blessings of being able to live a long and healthy life, but it's had a tremendous impact on retirement planning and I know the last time we talked, we talked about retirement redefined and the role of financial gerontology, but today we're going to kind of expand on that and talk about life span, health span, and wealth span which is kind of taking a deeper dive into what we talked about last time, is that right?

1:07

KELLY: Yes, I think, and you had mentioned that it is Long Term Care Awareness Month so we want to try and indicate what's going on there and help people a little bit in the preparations for that.

1:16

JIM: So we talked about in the past, I'll never forget the one gentleman that you talked about that won the hurdles in the Senior Olympics, and I believe he was a GM executive, and had retired maybe a little bit too early, thinking he wasn't going to live long, and then all the sudden here he was doing the hurdles, and I think one thing that a lot of us are kind of in this false sense.

I meet with clients every day and they say, you know, what at 80 I'm not going to be around. I look at the charts, it says my life expectancy is 78, my parents all died before they were 65 or 70, and you know, what's kind of funny is we're seeing people living longer and longer, but yet believe don't really believe it's going to happen to them, and I'm sure you see that in your studies, so what do statistics tell us today? If someone gets to 65 and they're ready to retire, what can they expect?

2:05

KELLY: Well, I think it's important for people to recognize that when we're talking about life expectancy and you hit that 78 number, that's from birth, so you know, when we get to 65, however, life expectancy is 20-plus years for men and women, so that needs to be factored in, the very different theme. I always tell them the challenge is getting to 65. Once you're in 65, you're on cruise control, so we just kind of have to look at things in a different perspective, and I think that clearly Americans are starting to understand this.

There was just a study released just a few months ago actually with the Insured Retirement Institute to take a look at the boomer expectations for retirement, and to me the most frightening statistic was only 27% of boomers are confident they'll have enough money to last through retirement, 22%, and that is down from 40% in 2011, so we've seen a huge slide and I think that we attribute that probably to a lot more awareness of this longevity issue, the lack of preparation financially as boomers are often already in retirement and many of them very close to retiring.

You start looking at your numbers perhaps in a very different way, so that is something that we need to really start helping people with identify with, and what you mentioned too, Jim, is right on point with how many people really are prepared to live to their 80s and 90s, and there was a study that was done not too long ago that we're seeing maybe, oh, gosh, I don't know what the, I think it was 56% are prepared to live financially to 75, 46% financially prepared to live to 85, and a mere 36% prepared to go to 95, and as we've spoken about in the past 85-plus is the fastest growing segment of the US population, so to have less than 50%, and I don't even think they're really prepared financially even the 46% who think they are.

It's a real wake-up call for Americans, and I'm really concerned, Jim, I'm really concerned because I'm very fearful of an individual's quality of life and how many families are serving in the role of care giving because people have not prepared financially for this longevity, and what that's looking like. I mean, if we were to put all of the caregivers in this country that are family members in one state, it would be the fifth largest state in the country. Eighty percent of families are doing the caregiving for this longevity that people are not prepared for financially.

4:17

JIM: So it has more of an impact than just you saying, well, you know, whatever happens to me, what do I care. I mean, you are impacting other family members that care about you by not planning, and I think what I've found and maybe you see this too, I think people are just in a state of denial, and I have even the retirement, we are projecting what happened with our parents into our own, and we're taking the best of both worlds to paint the best picture, and if we look at our parents and grandparents, they had pensions and now we're spending 10 to 15 years longer in retirement because we're living longer and a lot of us are retiring earlier. Most of our parents and grandparents worked until they couldn't any more, and then they might have had six months or a year in retirement before they decide, you know, according to life expectancies, then it extended a little bit and our parents had pensions, so that took care of between pensions and social security a lot of what they needed and what little bit of savings they had they only needed to last maybe five or 10 years.

Now we don't have pensions, we still have social security but now we're retiring earlier and living longer, and we don't have the savings to deal with it, so we just say, well we're not going to live that long and everything's going to be good, but you make that decision to retire maybe a little bit too soon, it can cause some real problems, but now I want to shift gears here because one of the biggest issues facing people in retirement, you've coined financial avalanche. What is the financial avalanche that might be facing people in retirement?

5:45

KELLY: Well, clearly the number one fear of Americans right now as they come towards retirement is health care cost, for what, how long, how much, coupled with a medical or health care system on the verge of collapse and really a huge question mark about what's going to happen with Medicare, so this is a financial avalanche heading this country's way, and we're not prepared, we're not aware of what the likelihood is. I think there are two interesting challenges.

One, 70% of Americans over the age of 65 are going to need some form of long term care in their lifetime, 70% don't believe it will ever happen to them, so that's one of the first problems. The second problem is what people understand or I should say probably don't understand what long term care is. First of all, I think it's one in four Americans understand that 70% are going to need it, and less than two in 10 understand that Medicare or Medicaid I should say pays for the majority of long term care. That's a real important distinguishing factor, Medicaid, not Medicare, so Medicare does not cover long term care, but again let's go back to what long term care is.

People have this image of a nursing home, and really the long term care that is really picking up speed right now, the fastest growing sector of health care is Home Health care, so we have the technology and the ability to help pay for care at home, which is what we want people to be understanding, and understand that when we're financing some type of long term care, it's for that Home Health care, not for being in a nursing home.

If we don't have the financial support for that or the family members who are willing to step up and provide that care, then we end up spending down and end up in a nursing home, and that's where Medicaid is doing the coverage, and Jim, we have to also call attention to this extraordinary New York Times article that appeared last Monday, the 26th of October, and was the number one trending article, and it was titled, Dementia is Draining Families' Bank Accounts, and that got a lot of people's attention, and what it took a look at was the three leading killers in Americans, two of them heart disease and cancer, usually requiring expensive drugs, the third dementia has no treatment that's effective in slowing down the course of the progression of the condition, but the study looked at patients on Medicare and they found that by far the most expensive treatment was dementia, and we don't have a high cost drugs and treatments that we have for heart disease and cancer.

The reason why it is almost twice the cost, I mean, I think the cost for dementia was around $287,000, heart disease was $175,000, cancer was $173,000, dementia patients had way more out of pocket expenses that are not covered by Medicare, so that's where we have the problem, and I'm concerned because I'm not sure people understand that we see a 50% chance of some form of dementia after the age of 85 which again is that fastest growing segment of the US population.

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JIM: You know what's interesting, Kelly, is you're talking about that, one of the things I'm thinking about, long before ObamaCare I saw rankings of health insurance companies and the amount of business that they did, and the company that has that little duck running around on commercials is known for selling cancer policies, and they were at the time that I looked at this, and again I say it's several years ago, I don't know exactly when it was, they were the number one seller of individual health plans, and they did that by selling cancer policies, and now you just talked about cancer as being one of the big three, but far short of dementia, and anybody who has dementia is going to need long term care and yet you look at the statistics of people buying coverage for that, it's almost nothing.

9:12

KELLY: Yes, that's exactly right, and you know, we have to take a lead by the federal government. You know, I hate to say it, but when we look at their medical funding, they are so heavy, cancer research is about $5.4 billion, heart disease $1.2 billion, AIDS and HIV $3 billion, Alzheimer's a mere $565 million, yet this is the trend and this is where everything is heading, and that's why I call this a huge avalanche, and we talk about a lot of people not wanting to buy long term care policies and I'm not an advocate of long term care policies, I just want people to have a financial plan for health care. If that's a long term care policy, so be it. If it's some annuity or some other form of financial product that we have a lot of hybrids and stuff right now that are really very attractive for helping in some of these unexpected costs, I just think we need to start paying attention to that, and we see a lot of people self funding.

I was listening to an interesting specialist talking about that issue specifically, that a lot of wealthy clients will go ahead and self fund. The problem with that, Jim, is when they self fund they still end up relying on the family, because they don't have the insurance there. If they had the insurance policy, they would be more likely to use those services and those resources, but if they're self funding they could go out and afford to buy all that care but for some reason they just end up generally leaning on the family, and like I said it puts a tremendous strain on a family financially, emotionally, mentally, there's just a lot of difficulty with that role. We step up and do the right thing, always, but again it pays its toll.

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JIM: One thing I got to emphasize too in a point that you made earlier is understanding what is long term care. When I talk to people, I ask them, what is your plan, you know, and right away there's, I don't want a nursing home policy, I don't want nursing home insurance. Well, we're not talking about nursing homes necessarily. I know for -

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KELLY: Right.

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JIM: - long term care insurance, only a third of the claims are paid to nursing homes. A third is in the home, a third is assisted living. The percentages of people receiving care in the home and the claims in the home is rising. The amount of people getting nursing home checks for nursing home stays is declining, and assisted living is kind of starting to level off now, but what we're seeing is long term care is when you need help that goes beyond maybe you and your spouse, who is going to pay for it and where is the money going to come from and who is going to provide that care. That's the answer you've got to figure out when doing long term care planning.

Let's take a quick break. When we come back, let's talk about the wealth span and the health and wealth connection, and what some of the solutions to this problem might be, so please stay tuned.

[BREAK]

10:06

JIM: Welcome back as we continue to visit with Kelly Ferrin. She's been a guest many times. She's a gerontologist that's very passionate about people reaching retirement with their eyes wide open and having a healthy and wealthy life, and you talk about wealth span, the health and wealth connection. Can you talk a little bit about that and why it's important for people to really have a plan and understand that?

12:29

KELLY: Well, there are so many factors that contribute to that, and I think that what I want to start the foundation with is that when we take a look at again consumer's number one fear, it is health care costs, and it is three times that which was the number one fear just 10 years ago, Jim, and that was outliving their money, so clearly Americans are understanding that we're living longer and that the health care costs that come with that are very, very, very expensive, and so that is an issue that we're trying to help make that connection between health and wealth.

When we look at the fact that as we've just been talking about, the majority of consumers really don't understand what long term care is, nor do they understand that it's not a care or cost that's covered by Medicare unlike heart disease and cancer and those types of conditions, that's when we see a lot of out of pocket costs coming down the pike.

As I take a look at the family structure which I think is another really important element here, is that in the 1900s only like 7% of people the age of 60 had a surviving parent. Today it's 70%, so that means our caregivers themselves oftentimes are in their 60s, and may or may not be in the best of health. Ratio right now when we're looking at, that's another thing we have to start paying attention to, there's maybe seven siblings or children or family members to every one parent who needs some care in 2010, but that continues to decline, you know, like four to one in the next 20 years, three to one in the next 40 years, so we have to start looking at the family structure as well as we start talking about some of these other areas.

So it is a big concern, but making the health and wealth connection, that really is where people need to start focusing their attention, and understanding what's happening. You know, 72% of Americans are looking at a serious health problem as their number one fear, 82% of them concerned about memory loss, 60% concerned about being a burden on their family, 47% concerned about running out of money.

The problem as we have talked about and you said so eloquently as well, it's the isle of denial, nobody wants to talk about it, and nobody wants to talk about it meaning that they're not doing anything about it, and as a result the very thing happens that they didn't want to have happen where 80% of the care is provided by the family, and that's what happens when we don't make the proper type of plans, so again, our country and the retirement system was not designed for 30 years in retirement, and what that looks like as you've said already without a pension, without proper savings let alone the high cost of health care, it is bankrupting Americans, and should we talk about celebrating the 50th anniversary of Medicare, which as people may or may not remember, but LBJ signed that Medicare bill in play in 1965 because the high costs of hospital stays were bankrupting a lot of American families.

The annual cost of Medicare at that time were around $3 billion, the projected 30-year costs were $12 billion, the reality, Jim, it was $107 billion and they projected $12 billion for a 30-year cost, so clearly in today's Medicare costs somewhere in the neighborhood of $2 trillion, so we're in the same mess we were then because the fastest growing sector of bankruptcy in this country is due to health care costs and it is among the 65-plus and the 75-plus populations, seeing 150% uptick in the 65-plus bankruptcy protection, and about 450% in the 75-plus which is the real sweet spot because that's where these long term care costs and expenses come in.

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JIM: Just amazing.

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KELLY: It's the health and wealth avalanche. The good news is we're living long, the bad news is we're living long, and we're not prepared for and our systems were not prepared for the financial ramifications of longevity.

16:06

JIM: You know, as you're talking to me, it's like, plan, and I talk to clients every day, and I talk about them, what is the long term care plan, nobody wants to address it. It's not going to happen to me, they're pointing their finger in the other direction. It's interesting, I just met with some clients just recently and I talked to them about a little bit, and they said, well we don't have to worry, we're not going to live that long, and they said, we're probably not to live past 80. We don't have any longevity in our family, and I said, really, I said, are all your parents dead, and the one gentleman said, well my dad's almost 80 and I guess he's doing pretty good but he's like the only one, and then the wife said, yeah, but we had that aunt that lived to 101, and then they start thinking, you know, and it's amazing how we let our minds think, because if we don't want to deal with the issue we'll figure all the answers of why we don't need to deal with it, and the staggering statistics, the bankruptcy rates that you're talking about are incredible.

I always tell clients, I said, look, I hate long term care insurance, I hate the process of applying for it for my clients, I hate the process of the premiums and the rate increases, and all the issues that go around it, and I personally bought long term care insurance when I was 29 years old, and every time I write that check out I second guess myself, you know. I look at how much money in premiums I've paid all these years and all the fun I could have with that money if I just had it back, but you know what, I'm blessed because of the business that I'm in, I see what's happening on a daily basis, and there's not a day that goes by that we don't get a phone call, what do we do, you know, mom needs this, dad needs this, and I'm sure your statistics show, because I've certainly seen it, the clients I have that don't have long term care insurance, first of all they wait to get help, and whatever problem they have gets worse, so the amount of care they need is going to need to be more, and then the healthy spouse gets injured trying to take care of them because they're doing whatever they can to avoid those costs, and what they end up doing is they exasperate the cost because they don't get the help as soon as they need it because they're trying to save a couple bucks and they end up shooting themselves in the foot.

Do you have any statistics to that end, because I just see it, I don't have any scientific data to back it up, but I see what's happening.

18:15

KELLY: No, absolutely not, but I will tell you, Jim, that I think in two places. The financial advisor industry are the ones who are going to step up. They are the ones who are starting to have these conversations with clients, and I think maybe clients feel more comfortable perhaps having the conversations with an objective third party, someone who's not family and emotionally involved to discuss in advance, what are we going to do. Not enough percentage of them are doing it, having those conversations with clients, but more and more definitely are, and I think that that's what's going to help with all of that, and I think they are the ones also where we will start seeing more of that statistic developed and accumulated or processed because they are the ones who are getting those phone calls as you so eloquently already said.

I think one of the other things too that we have to remember is that the majority of people like you said, \_\_\_\_\_% of Americans choose to self fund, and the ones who choose to get a long term care policy or put some type of financial plan in place, they are the ones who have been caregivers or they watched someone drain their financial assets through a health problem or a long term care issue, so those are the people who become very passionate about it. They've been there, they've seen it, and I think there's enough of that going on around Americans today that that's why we're seeing that the health care cost is far and away the number one fear, and that is the concern, because people are seeing it. I think that's the reason why we see that baby boomers aren't government they're going to have enough money to last.

I think we're seeing more and more around this, or hearing more and more stories about it, but you know the concern that I have, and I'd like your opinion on this as well, I don't know how you pronounce it, the filial laws, f-i-l-i-a-l laws, where the family members are becoming responsible financially for the long term care of the parent who has perhaps utilized the services and is deceased. Have you heard anything about that?

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JIM: Well, you know, I've heard my home state is Wisconsin, I have heard there's a law on the books that just isn't enforced because constitutionally they don't know how they can insurance it. These laws are sitting on the books is what I've heard, but they don't feel that they could be enforceable. What I hear is -

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KELLY: They're being pursued in some places. I know they're being pursued in some places, but I'd have to get further data.

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JIM: Well, especially, one thing is in the divestment, I know in Wisconsin back in 1993, October 1, 1993, prior to that date you literally could divest all your money overnight and qualify for Title 19 the next day, and now it's pretty much if you've made any gift in the last five years, you ain't getting Title 19. Now, that's an over simplification, obviously you've got to talk to a qualified elder attorney and all those things to see how that works, but I think the most responsible thing, and it may sound like we're telling everybody to buy insurance, and I agree with you, insurance isn't the solution for everything, but it is a tool in the toolbox, and I think the most important thing people can take from this is you have to have a reality check.

If you're going to self fund, are you being real about what the costs can be, and what your resources are, and are you being true to yourself or are you in denial, and the other thing I look at is because we're blessed with longevity, when they invested social security and this retirement age of 65, the average person was not going to get a check, you know.

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KELLY: That's right.

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JIM: You were going to a few checks maybe if you lived beyond your life expectancy, but that was more rare. Now we've got people living to 85 or 90, is it realistic to still have a 65-year-old retirement date? With hip replacements, knee replacements and all this stuff where they can rebuild you and put you back on the assembly line again, you know, you're able to work longer and heal healthier, and I'll tell you what, I see too many people retire early with no purpose. They don't know what they're retiring to, and they lose their identity when they retire a little bit too soon.

I think we talked about this a little bit the last time is how do you define retirement. Does it mean you're just going to sit in the rocking chair and wait to go to a nursing home and die, or just die, or are you going to do something, and by extending your income for awhile and delaying the time you're going to be drawing on your accounts, you'll do one of two things. One is you'll have more of a nest egg to self insure, or maybe you'll have more money to be able to not have to go it alone.

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KELLY: Well, and absolutely right on every single one of those marks. We keep people healthier longer when they have something to do, some place to go, and a responsibility to be a part of, so either we have to help make that transition to retirement, what's next, what's that next phase of life going to look like, which we haven't done a very good job at, and I think the other element too that we have to remember, you know, social security and the retirement age, the retirement age was, what in the late 1800s Bismarck formula with life expectancy was 47, so 65 would be considered old?

I mean, yeah, life expectancy is pushing 80 today, so how do we call 65 old, and I think that we have a lot more sedentary type jobs, you know, people aren't pushing boulders any more, you know, the physical labor that maybe occurred a lot in the olden days, quote-unquote if you will, that's just not there any more, so, yes, there are just a lot of things we need to change, and we're really not addressing it. Part of this is because we have not enough gerontologists to get out there in the marketplace and within the business structures to discuss some of these issues, but clearly the government is very aware of these numbers and they've chosen not to mess with social security for strictly voting purposes in my opinion, the largest percentage of voters are 65-plus, so if you start talking about messing with social security or Medicare among the largest consumers of voters, you're playing with fire, so they're not addressing it, it's not that they don't know about it, it's just a matter of when we're going to figure it out and when we're going to accept what's happening.

I think it's the same way with families who choose to self fund like we talked about, multi-millionaires self funding, but who ends up really doing the care? The family. No, I'm not sure that's the right thing. Have you spoken with family? That's another conversation that comes up a lot. Do the kids know that that's what their role is going to be? Because of them, they don't.

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JIM: That's funny, sometimes the whole family is in denial. They say, mom and dad, don't do this, don't buy insurance, we'll take care of you.

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KELLY: Right.

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JIM: And they haven't even thought what that means, so you've really got to have a serious discussion, and whatever plan you have, I mean, don't make the mistake of your plan is, I'm going to have no plan at all, you know. If it's going to be self insure, if it's going to be family members, make sure you don't just say, oh, yeah, that will all work out. Make sure you think it through and that it's a legitimate plan that has a possibility at least of working, and Kelly, I just have to thank you again. You're always a plethora of information.

One thing you mentioned, I mean there aren't enough gerontologists to help people get real about this. I know you do speaking around the country. You also have a web site where you've got a lot of information for people. Why don't you share with the audience if they'd like to get more information from you, how they go about doing that.

24:32

KELLY: Well, I will tell you, Jim, it's not about me, really. I love what I do and I'm happy to help whatever people I can. I don't really keep my web site as up to date as I should, but I want to make two comments.

One, people don't plan to fail, they fail to plan, and I think that we can put that at the top of everyone's chart every day, remember that. It's never that we expect to fail, we fail to plan. We've got to remember that, and to me one of the best resources out there right now, I think, and you're probably aware of it, but I want to refer people to IRI Smart Brief, so this is the Insured Retirement Institute, so they go by IRI, Smart Brief dot com, IRISmartBrief.com has a plethora of information that comes out regularly. They are a little heavy on the annuity issue, but I think they are really doing a great job in trying to keep people educated and informed about the longevity issues and the health care issues, and I get a lot of my information from them, so they are a tremendous resource.

If I can be of any help, then I'm always happy to do that. I am at KellyFerrin.com, and that's K-e-l-l-y F as in Frank e-r-r-i-n dot com, always happy to help you, and Jim, you do such a great service. It's always a gift for us to have the opportunity to work with you and to see if we can educate a little bit and inform people with the facts and help them move on in a positive way with their lives.

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JIM: Well, thanks again, Kelly, and the final point I'll make is don't go this alone. I mean, there are all these resources for this information. When it comes time for planning, use a professional. This is the business that they're in, and they can give you an unbiased look at what your circumstance is and be honest with you and tell you, hey, this is what you need to do. Too many people have a false sense of security and I've dealt with clients all the time. I can't emphasize enough how important it is, what you said, people don't plan to fail, they fail to plan, and I don't care what the plan is, but something as serious as long term care, you don't just wing that, you've got to make sure it's well thought out and you're comfortable with the consequences of the plan that you have, you know, whether it's relying on family, relying on insurance, relying on some combination of the two, the government programs. There's all different ways of approaching it, but don't wait until it's too late to figure this thing out.

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KELLY: You know, Jim, let me finish one thing too, that I want to give a real heads up to the benefits of working with a financial advisor, are the studies again, the IRI study, great, 93% of people who worked with an FA saved money for retirement, 71% of them have a retirement plan, and 86% feel prepared for retirement versus 14% of Americans who try and prepare for retirement without an advisor, so this industry really like I said is playing a critical, critical role, and I do think they're stepping it up. They're moving in the right direction, but we have to embrace this expertise and I think more and more Americans are willing to do that. They will help you figure it out.

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JIM: All right, thanks again, Kelly, it's been awesome.

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KELLY: Always a pleasure, Jim, thank you so much.

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JIM: Thanks for joining us this week, and tune in again next week as we explore another phase of the Real Wealth process, and remember, if anything you heard in today's show you'd like to get more information about, contact your Real Wealth advisor. Also if you feel that any of this information would be helpful to a friend or family, just click the Forward to a Friend button.