

Why health care is the ultimate retirement wildcard

New study focuses on the need to integrate healthcare and retirement planning

By: Mary Beth Franklin | Sep 12, 2014

When it comes to health, wealth and happiness, it turns out the first — health — is the key ingredient to achieving the other two. Yet healthcare costs are seldom factored into traditional retirement planning models.

New research from [Merrill Lynch](#), conducted in partnership with Age Wave, found that 81% of retirees cite health as the most important ingredient to a happy retirement, followed by financial security (58%), loving family and friends (36%) and having purpose (20%). Pre-retirees cited health care costs in retirement as their greatest financial concern.

“As boomers move into their later years, health will be the ultimate retirement wildcard,” Andy Sieg, head of global wealth and retirement solutions for Bank of America Merrill Lynch, said of the new study titled [Health & Retirement: Planning for the Great Unknown](#). “This research makes clear that the convergence of health and wealth must be factored into planning for later life.”

The study, based on interviews with more than 3,300 participants, examines the implications of health and health care costs on quality of life in retirement and has some profound implications for the financial services industry.

'NOT GOING TO FLY'

“Just 21% of pre-retirees age 50 and older who work with a financial adviser have had an in-depth discussion about health care options and costs in retirement,” said Ken Dychtwald, founder and chief executive of Age Wave, a firm that researches aging issues. “To be a professional adviser and not take into account how important this issue is or pretend it's not going to be part of the equation is not going to fly anymore.”

Mr. Dychtwald noted that baby boomers, the youngest of whom turn 50 this year, are demanding consumers who have redefined nearly every stage of life. The way they approach health and wealth will be no different, he said. Compared to their parents' generation, boomers are more than twice as likely to say they are proactive about their health (75% vs. 30%) and four times more likely to actively research health information (79% vs. 18%).

The study also found that regardless of wealth level, health care expenses rank as the most pressing financial concern in retirement (41%), even exceeding the fear of outliving one's money (29%).

DOUBLE THREAT

“Health challenges can be a double threat to retirement financial security,” said David Tyrie, head of personal wealth and retirement at Bank of America Merrill Lynch. “Between unpredictable and costly health care expenses and unexpected early retirement due to health problems, planning ahead can be confusing and overwhelming.”

Yet most retirement planning today does not factor in the cost of healthcare. The study found that fewer than one out of six pre-retirees age 50 and older has attempted to forecast how much they will need to cover health care or long-term care expenses in retirement. Many pre-retirees in the survey say the information available to them to estimate and prepare for health care costs is overwhelming (54%), confusing (49%) or frustrating (36%).

In addition, the vast majority of participants don't understand Medicare. Only 7% of people age 55 to 64 said they had a strong grasp of Medicare coverage options. And even among actual Medicare recipients, only 19% of respondents said they have ample knowledge about their Medicare options.

For the first time, across all generations, more people cited Alzheimer's as the disease they fear the most, replacing cancer as the number one health fear. When asked what concerns them the most about Alzheimer's, they cited becoming a burden on their family (78%) and loss of dignity (58%).

“I think we have reached a cultural tipping point,” Mr. Dychtwald said. “Alzheimer's is becoming the terror of the 21st century.”

Clients need more than investment guidance from their financial advisers. “This is an opportunity for financial advisers to truly help clients plan for what lies ahead,” Mr. Dychtwald added.

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