



Health Care the Greatest Retirement Planning Unknown

By: Rebecca Moore | September 12, 2014

September 12, 2014 (PLANSPONSOR.com) - Respondents to a survey identified health as the most important factor for a happy retirement, and health care costs as their biggest concern, highlighting the need to consider health in retirement planning.

Eighty-one percent of retirees in a study by Merrill Lynch, published in partnership with Age Wave, cite health as an important ingredient to a happy retirement, followed by financial security (58%), loving family and friends (36%), and having a feeling of purpose (20%). Among respondents ages 50 and older, the cost of health care in retirement was cited as their greatest financial concern, regardless of their wealth level.

“The unpredictability of one’s health makes health care costs a very difficult, perhaps the most difficult, factor to plan for,” said Andy Sieg, head of global wealth and retirement solutions (GWRS) and a member of the Bank of America Operating Committee, during a media call. “On one hand, bad health can make someone have to leave the workforce too early and affect the ability to save, as well as cause a person to use up assets. On the other hand, good health may mean living longer and needing more assets on which to live.”

Forty-one percent of respondents age 50 and older chose health care expenses as their greatest retirement worry, far more than the proportion worried about running out of money in retirement (29%). David Tyrie, head of retirement and personal wealth solutions for Bank of America Merrill Lynch, pointed out that information about paying for health care is confusing and overwhelming. One focus group participant in the study said, “I’ve seen the numbers about what health care can cost and it’s hard to wrap your head around. I haven’t even started thinking about that when saving for retirement.”

According to the study, people are more concerned about the financial impact of a spouse’s serious illness (66%) than they are about their own illness (62%). Women, who are likely to live longer and more apt to spend down savings on their spouse’s health care, are even more concerned than men (70% vs. 62%) about the financial impact of their spouse developing a serious health problem. This means women should be factoring in things like long-term care in their retirement planning; after they take care of everyone else, they’ll be on their own, Tyrie pointed out.

The study also finds that many people ages 50 and older anticipate they would help other family members facing health problems and health care costs. This may be one reason why people’s concerns about how to plan for health care costs include potential health problems of their children (50%), parents (32%) and siblings (29%).

The majority of retirees surveyed (55%) retired earlier than they had expected, while 38% retired when they planned to, and just 7% did so later than they expected. Thirty-seven percent of those who retired early cited health problems as the reason.

According to the survey, fewer than one out of six preretirees ages 50 or older has attempted to forecast how much they may need to cover health care or long-term care expenses in retirement. Many preretirees surveyed say the information available to them when trying to determine how much they might need—and how best to prepare for and insure against these costs—is overwhelming (54%), confusing (49%) or frustrating (36%).

The vast majority simply don't understand Medicare, with a mere 7% of people ages 55 to 64 citing a strong grasp of Medicare coverage options. Even among actual Medicare recipients, fewer than one out of five (19%) say they have ample knowledge about Medicare options. "Retirement plan sponsors and advisers can do a better job of educating preretirees about Medicare in plain language," said Ken Dychtwald, the founding president and CEO of Age Wave.

According to Tyrie, one focus group participant said that he was fortunate to have a big employer that covered most of his health care costs during his career, but because of that, he didn't understand much about health care costs when he retired.

A lack of communication about health care costs is perhaps the greatest barrier to effective planning. Among married pre-retirees ages 50 and older, seven out of 10 have not had a discussion with their spouse about how much should be saved to pay for health care during retirement, or about how to pay for any long-term care that might be necessary. The survey report suggests five critical conversations couples or families should have to help effectively prepare for retirement health care.

Tyrie noted that also, 79% of respondents who work with advisers have not talked to their advisers about health care costs in retirement (see ["Employees Need Help Planning for Health Care Costs"](#)). "These are very uncomfortable conversations, but advisers have to become educated about the topic, and they have to be the one to raise the topic in conversations with clients," he said.

According to Dychtwald, although Baby Boomers expect more from health care professionals and even scientists, they realize their own responsibility when it comes to their health and health care costs. The study identified four different Boomer "HealthStyles." For example, Dychtwald noted there is a "Lucky but Lax" group that has been lucky to be healthy and because of that is not really doing such things as exercising or eating right to stay healthy. "The Lucky but Lax are really going to be caught off guard if a major health event happens; they are not prepared financially or with knowledge," he says. Meanwhile, the Course-Correcting and Motivated Group has had a health scare, leading them to adopt healthy lifestyle practices and start thinking about how to finance health care costs.

The survey shows a big payback from healthy habits. "Investing in your health has the biggest impact on your wealth," Tyrie said.

The survey found the number one worrisome disease for people ages 25 and older is Alzheimer's (54%), while only 26% cited cancer and 10% cited stroke. Dychtwald noted that there's not much people can do about Alzheimer's, but the concern shows the health care profession and the government can help in reducing people's health care costs in retirement. He pointed out that the government spends \$6 billion in cancer research funding, while \$550 million is spent on Alzheimer's. "Nothing can be done that would have a bigger impact on people's retirement than to wipe out Alzheimer's," he contended.

Why look at Alzheimer's in the study? "Because if you are concerned about people's retirement, you address what they are concerned about," Dychtwald said.

The full study report, "Health and Retirement: Planning for the Great Unknown," can be downloaded from www.ml.com/retirementstudy.