Why planning for retirement is getting more difficult

by Elliot Raphaelson "The Savings Game" *Chicago Tribune*, July 4, 2016

There are many reasons why it is more difficult for people to retire.

A major one is the rising costs of health care, which have outstripped income growth for most working people and retirees. Retirees recently have seen no increase in Social Security benefits because the federal government has indicated that inflation is too low to support cost-of-living increases. Yet it is no secret that all categories of health care costs have increased substantially more than the stated rate of inflation.

This is unlikely to change. According to HealthView Services, a leading maker of health care cost projection software, the cost of premiums for a healthy 65-year-old couple for Medicare, Parts B, D and supplemental plans is $583 per month, excluding vision, dental and copay. If you added all the exclusions, the cost would be $863 per month. HealthView estimates that health care costs will increase 6.5 percent per year, which means they would double every 10 years.

Future administrations will be under pressure to cut back on Medicare and Social Security benefits. However, the cost of health care will likely continue to surpass inflation rates.

Although my wife and I are covered by Medicare, supplemental insurance and Part B drug coverage, our drug costs have increased substantially since retirement. We have paid thousands of dollars annually since retirement. My acquaintances of similar age have a similar experience. Thousands of lobbyists in Washington will continue to support the drug industry.

Some individuals are under the illusion that when they reach 65, Medicare will take care of long-term care expenses. Medicare will not pay for any long-term-health expenses. As we age, the probability increases that some long-term care will be required and it is quite expensive.

If you don't have long-term-health care insurance, and most families do not, the costs are high. Homemaker services and home health aides cost approximately $3,800 per month (according to Genworth's "Cost of Care" report for 2016). Adult day health care is $1,473 per month; assisted living is $3,628 per month; and a nursing home (with semi-private accommodations) costs $6,844 per month.

It is important to be realistic regarding expected expenses and income in retirement. Anticipate a long life. Don't assume that health care costs will decrease. Use a realistic inflation rate for anticipated medical expenses. Don't expect that Medicare benefits and Social Security benefits will increase. It is more likely they will decrease.

What can you do if you anticipate that you will not have sufficient income when you retire?
If you are contemplating early retirement, reconsider. Your financial situation will improve the longer you work, both with respect to employer pension plans, your personal retirement plans and your Social Security benefits.

If you are not saving 10 percent of your income now for retirement, consider increasing the amount. If you are not receiving the maximum employer match from your employer's 401(k) plan, increase your contribution. Make the largest contribution to retirement plans you can. Use spousal contributions options for your retirement plans. If you have been investing in conservative investments, take more investment risk, such as investing in diversified common stock index funds *(If you are within 5-10 years of retirement, the above strategy may very well be disastrous and could lead to running out of money. Instructor's note.)*

If you planned on filing for Social Security at age 62, reconsider and look at other options such as waiting until age 70, increasing your benefit by 8 percent annually from your full retirement age up to age 70. Taking advantage of a reverse mortgage with low closing costs and establishing a line-of-credit may help you do this. *(This is an interesting option for some people, in that the growth rate of the line of-credit can be in the range of 6%, which means the account will double in 12 years. Moreover, the income taken out is tax-free. Instructor's note.)*

Look into insurance options that can provide long-term care benefits. The further away you are from retirement, the more options you have to plan ahead to ensure that a prosperous retirement. Don't wait.