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# THE 80%

## Four Ways to Help Retirees Make Their Money Last



ncoa national council on aging

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# THE 80%

## Four Ways to Help Retirees Make Their Money Last

## THE CHANGING FACE OF RETIREMENT

Today's 65-year-old can expect to live another 20 years, according to the Social Security Administration.[1] This unprecedented gift of longevity brings with it exciting opportunities—and a price tag. Unlike their parents and grandparents, today's pre-retirees and retirees face a vastly different retirement security landscape. The traditional three pillars of retirement income are changing.

1. **Social Security** has become the foundation for many people's retirement income. Almost 9 in 10 Americans aged 65 receive Social Security, and 45% of those who are single rely on it for 90% or more of their income.[2] Yet without federal action, the Social Security and Medicare Boards of Trustees project that the combined trust funds will be depleted in 2035.[3]

2. **Private employer-sponsored pension plans** have shifted from providing defined benefits, which guarantee steady income to people in retirement, to defined contributions, which place the responsibility of saving on individuals themselves.[4] Many Americans do not have access to these plans, do not earn enough to contribute to them, or simply have not contributed enough.

3. **Individual retirement savings** are low or nonexistent. The U.S. Government Accountability Office estimates "about half of households aged 55 and older have no retirement savings, and up to two-thirds of workers may not have saved enough to maintain their standard of living in retirement."[5] This means they are at substantial risk of financial insecurity and even poverty.

Combined together, longer lives and lower savings are fueling a retirement security crisis for millions of Americans. It is exacerbated by inflation, rising health care costs, and the fact that someone turning age 65 today has almost a 70% chance of needing some type of long-term care services and supports in their lifetime.[6] Long-term care is expensive and not covered by Medicare.

A 2019 analysis by the National Council on Aging (NCOA) and the LeadingAge LTSS Center @ UMass Boston demonstrates the scope of the crisis. Researchers reviewed the latest data from the Health and Retirement Study to examine the distribution of wealth across the population of adults aged 60 and older. For the analysis, wealth was defined as the total sum of housing and financial assets less debts. Researchers segmented the population into quintiles based on their net value of total wealth, with each quintile representing approximately 8 million older households. Key findings included:

**The bottom 20% of older adults—approximately 8 million households—have no assets.** In fact, some are in debt. This group has a median income of $16,800. These individuals are currently facing economic insecurity, and matters will only get worse as they age because many will need long-term care.

**60% of older adults—approximately 24 million households—face significant risk for economic insecurity** because they could not afford more than two years of long-term care if their average income and the household value of their financial assets were added together.

**80% of older adult households are losing financial ground.** Older Americans in the bottom four quintiles lost financial ground between 2014 and 2016, as evidenced by decreasing incomes, financial assets, and net total wealth. The net value of older homeowners' primary residence also decreased for the second and third quintiles. While not all these decreases are statistically significant, even a few hundred dollars can have a tangible impact on a low-income older adult's ability to make ends meet.

*Source: The 80%: The True Scope of Financial Insecurity in Retirement, May 2020. National Council on Aging and LeadingAge LTSS Center @ UMass Boston.*

# Four Ways to Help Retirees Make Their Money Last

**NCOA** and **Nationwide** believe there is a way to address the nation's retirement crisis. Combining their 160 years of experience, they are educating and empowering older adults to think differently about their financial resources, take practical steps to make their money last longer, and supplement the existing retirement pillars that are no longer sufficient to ensure a viable retirement. The partnership is designed to provide unbiased, trusted information to guide older adults in making decisions that will improve their financial well-being today and into the future. This paper outlines four ways to help individuals age with financial security and dignity.

**1**

**Enroll eligible individuals into federal and state benefits programs**

Eligible older adults leave **$30 billion** in benefits unused each year

**2**

**Educate individuals about the best time to file for Social Security**

**49%** of pre-retirees underestimate their life expectancy by 5+ years

**3**

**Improve long-term care coverage**

Today's 65-year-old has a **70% chance** of needing some type of long-term care

**4**

**Empower homeowners to leverage their home equity wisely**

Home equity represents **60%** to **80%** of most older homeowners' total net worth

*Source: The 80%: Four Ways to Help Retirees Make Their Money Last, May 2020. National Council on Aging, Nationwide, and LeadingAge LTSS Center @ UMass Boston.*

## 1 Enroll eligible individuals into federal and state benefits programs

Public and private benefits programs are an often misunderstood and underutilized approach to improving older adults' economic security. There are more than 2,500 benefits programs nationwide, but older adults are significantly under-enrolled in them. NCOA estimates that eligible older adults leave $30 billion in benefits unused each year—primarily because they do not know these programs exist or how to apply for them.[7] This estimate is based on the number of eligible, but unenrolled, older adults multiplied by the average benefit of each program.

Benefits programs can help eligible individuals pay for daily expenses, including their health care premiums and copays, food, utilities, and more. The core benefits programs include:

- **Medicare Part D Low-Income Subsidy** (LIS, or Extra Help), which helps people with limited incomes and resources pay for their Medicare prescription drug costs. More than 2.9 million individuals are eligible but not enrolled, and the benefit is valued at $4,900 a year.
- **Medicare Savings Programs** (MSPs), which help beneficiaries afford Medicare premiums, deductibles, coinsurance, and copayments for their inpatient and outpatient health care. About 2.6 million eligible beneficiaries are missing out on this benefit, which could save them over $1,600 per year at a minimum.
- **Supplemental Nutrition Assistance Program** (SNAP), which provides credits on electronic cards that enable recipients to buy food at participating stores. About 5 million adults aged 60 and over are eligible but not enrolled. Yet, the average senior with SNAP receives $1,400 in yearly benefits.
- **Medicaid**, which pays for a broad range of medical services for poor seniors, younger adults living with disabilities, and children and their family caregivers.
- **Low-Income Home Energy Assistance Program** (LIHEAP), which provides grants to states to assist qualified individuals with their home heating and cooling costs, saving them an average of $250 each year.[8]

Boosting older adults' access to benefits requires a comprehensive approach to build awareness and provide direct assistance to help them navigate the often-complicated process of applying. Advocacy also is needed to ensure that Congress fully funds these programs to meet the needs of a growing population of eligible individuals. Connecting more eligible older adults to benefits programs promises to ensure that those who are struggling in retirement can afford daily expenses throughout their lives.

# 2 Educate individuals about the best time to file for Social Security

Deciding when to take Social Security can have a significant impact on the finances of most individuals and couples. Determining the right filing strategy requires an analysis of longevity, income sources, and available assets for retirement, along with establishing realistic retirement income goals. There are several factors to consider.

## *Life expectancy*

According to the Society of Actuaries 2015 Risks and Process of Retirement Survey,[9] 49% of pre-retirees underestimate their life expectancy by 5 or more years and another 20% underestimate by 2-4 years. This often leads to people filing earlier than what might be in their best interest.

According to the 2018 LIMRA Retirement Income Reference Book,[10] a 65-year-old male has a 50% chance of reaching age 87, and a 65-year-old female has a 50% chance of reaching age 89. For married couples, there is a 50% chance one spouse will reach age 93. With advancements in medical treatments, these numbers are likely to increase over time. With breakeven points for most filing options occurring between the ages of 80 and 85, it is often advantageous to delay filing to increase cash flow and lifetime income from Social Security.

Health is also a factor. Chronic conditions such as cardiovascular disease, cancer, obesity, and diabetes can affect life expectancy, as can lifestyle. Healthy diet, exercise, and good sleeping habits have been shown to improve life expectancy, while smoking, drug or alcohol abuse, and stress can have the opposite effect. Family history plays a role, as well. If an individual's parents and grandparents lived to their mid-80s or beyond, a delayed filing strategy is worth considering.

## *Sources of income*

Pensions, annuities, part-time work, severance pay, rental income, and other sources of income all play a role in determining the best time to take Social Security. When significant income is available, the need for Social Security is lessened. This provides an opportunity to delay taking Social Security for more income later. When other income sources are not available, accumulated savings are important in determining if Social Security should be taken early or delayed.

## *Retirement age and savings*

Filing for benefits prior to reaching Full Retirement Age (FRA) reduces the monthly benefit a person receives. Depending on an individual's year of birth, filing at age 62 will reduce benefits by 25% to 30%. On the flip side, benefits increase by 8% per year if a person files after FRA up until age 70. For individuals who are working prior to FRA and file for benefits, they will potentially be impacted by what is known as the Earnings Test. For 2019, the income limit was $17,640. For every $2 earned above that amount, $1 is withheld. Any benefits withheld are added back into future lifetime payments beginning at FRA. The benefit earnings reduction ends once an individual reaches full retirement age, which means that an individual can work after FRA and still receive full benefits.

If an individual or couple plans to delay filing and has stopped working, it's important to look at savings to ensure they have adequate resources to bridge the gap between retirement age and starting Social Security. However, according to the October 2017 Government Accountability Office (GAO) analysis,[11] the median retirement savings for American households between the ages of 55 and 64 was only $107,000. This would provide approximately $310 of monthly income in an inflation adjusted investment and would likely not provide enough income to offset delaying Social Security.

## *Viability of Social Security*

Social Security statements issued in 2019 included the following notice: "Your estimated benefits are based on current law. Congress has made changes to the law in the past and can do so at any time."

The law governing Social Security benefit amounts may change because, by 2035, the payroll taxes collected will be enough to pay only about 80% of scheduled benefits. In other words, if no changes are made to the current system, benefits are likely to be reduced across the board beginning in 2035. There are several proposals that could increase the viability of the program, including:

- Raising payroll taxes
- Increasing the FRA
- Removing or increasing the income limit for Social Security payroll taxes (currently $132,900)
- Changing the index used to determine annual Cost of Living Adjustments (Social Security is adjusted for inflation under current law and is projected to increase between 2.0% and 3.2% for the next several years, according to the Social Security Trustees Report for 2019[12]
- Increasing the number of quarters required for eligibility (currently 40)

Educating individuals about the best time to file for Social Security could have a significant impact on their ability to make their money last in retirement.

# 3 Improve long-term care coverage

Thanks to gains in longevity, including more people living longer with well-managed chronic medical conditions, the need for long-term services and supports (LTSS) is increasingly prevalent and requires planning. Someone turning 65 today has almost a 70% chance of needing some type of long-term care services and supports in their lifetime.[13]

With median nursing home costs totaling $92,000 per year and home care costing as much as $46,000 per year,[14] LTSS represents the single largest financial risk faced by older adults and their families.[15] For those who must pay for care, they can expect to spend up to $140,000 out-of-pocket.

Stand-alone private long-term care insurance, which has played only a modest role in paying for care, is now out of the financial reach of most middle-class Americans.[16] Moreover, confusion about public and private roles in paying for costs, myopia, mistrust of the insurance industry, adverse selection, and high selling costs have all contributed to declining sales of private long-term care insurance policies.[17]

The result is that most people do not have insurance to cover this liability. Medicaid covers care in nursing homes and pays for home and community-based care, but it requires individuals to first "spend down" most of their liquid assets in order to be ruled eligible to receive these benefits.[18] Moreover, due to budget constraints, even eligible individuals cannot always access needed care,[19] but instead are placed on waiting lists.[20]

There is a growing belief that the long-term care problem is too large for any one sector to solve on its own. New initiatives at the state and federal level suggest that a strategy that emphasizes a combined public and private approach to promoting comprehensive insurance protection is most likely to succeed.[21]

One program design gaining some traction is the establishment of a public program to cover catastrophic LTSS costs[22] alongside steps to encourage private insurance take-up rates to protect against "up-front" risks. The hope is that this will make private insurance more affordable, people's "tastes" for insurance will change, consumer confusion will diminish, and more companies will enter the market to provide new products to cover front-end risk.

Several states also are exploring new ways to address the issue.[23] Some are developing state-based social insurance initiatives to directly address the problem. The states that are furthest along seem to be driven by a desire to move away from Medicaid-financed care toward insurance-financed care; having a system that is universal and contributory; putting in place a program design to be affordable, fiscally sustainable, and self-funded; and having a limitation on public benefits to leave room for and encourage private insurance.

Advocacy is critical to push policymakers to keep the issue of LTSS financing on the policy agenda. Also important is the need to educate the public about the risk and how to begin the planning process, as well as encouraging product and program innovation.

# 4 Empower homeowners to leverage their home equity wisely

For the 80% of adults aged 65+ who own their homes, home equity represents 60% to 80% of their total net worth, making it an important factor in addressing retirement needs.[24] Forty one percent of those aged 65-74 and 63% of those aged 75+ own their homes free and clear.[25]

However, most older homeowners do not see tapping their home equity as a strategy for creating greater retirement security, according to NCOA research.[26] Conducted over eight months, the research gauged the interest in and understanding of home equity products among older homeowners and financial advisors. Research found that:

- Despite the importance of home equity as part of their financial portfolio, older homeowners do not understand and are reluctant to use home equity products.

- Older homeowners and financial advisors have a strong negative bias against the Reverse Mortgage Line of Credit, based exclusively on product name and driven by preconceived notions and misunderstanding of the product.
- Based on product features alone, both consumers and financial advisors prefer the Reverse Mortgage Line of Credit, citing it as less risky and more desirable than a Home Equity Line of Credit.
- Older homeowners are open to education and information to help them better understand safe and appropriate ways to use home equity products to address their retirement needs.

Tapping home equity is not the right answer for every older homeowner, but it is an option worth exploring. More education and product innovation is needed to enable people to leverage what is often their largest asset.

## CONCLUSION

Despite the significant challenges facing pre-retirees and retirees when it comes to financial security, there are solutions worth considering. NCOA and Nationwide are committed to educating pre-retirees and retirees about these options—and more—to help them make their money last as long as possible in retirement.

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**About NCOA**

The National Council on Aging (NCOA) is a trusted national leader working to ensure that every person can age well. Since 1950, our mission has not changed: Improve the lives of millions of older adults, especially those who are struggling. NCOA empowers people with the best solutions to improve their own health and economic security—and we strengthen government programs that we all depend on as we age. Every year, millions of people use our signature programs BenefitsCheckUp®, My Medicare Matters®, and the Aging Mastery Program® to age well. By offering online tools and collaborating with a nationwide network of partners, NCOA is working to improve the lives of 40 million older adults by 2030. Learn more at **www.ncoa.org** and **@NCOAging**.

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Nationwide, a Fortune 100 company based in Columbus, OH, is one of the largest and strongest diversified insurance and financial services organizations in the United States. Nationwide is rated A+ by both A.M. Best and Standard & Poor's. An industry leader in driving customer-focused innovation, Nationwide provides a full range of insurance and financial services products including auto, business, homeowners, farm and life insurance; public and private sector retirement plans, annuities and mutual funds; excess and surplus, specialty and surety; pet, motorcycle and boat insurance. For more information, visit **www.nationwide.com**.

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**About the LeadingAge LTSS Center @ UMass Boston**

The LeadingAge LTSS Center @UMass Boston conducts research to help our nation address the challenges and seize the opportunities associated with a growing older population. Established in 2017, the LTSS Center is the first organization of its kind to combine the resources of a major research university with the expertise and experience of applied researchers working with providers of long-term services and supports (LTSS). Learn more at **www.ltsscenter.org.**

## ENDNOTES


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