

# PNC CENTER FOR FINANCIAL INSIGHT

PNC Center for Financial Insight<sup>SM</sup> builds bridges from thought to action, creating practical, applicable strategies to help benefit you and your family.

## Planning for a Longer Life

People are living longer, presenting a number of financial opportunities and challenges.

The phrase “50 is the new 30” is much more than a state of mind in today’s world. People are living longer and more dynamic lives than ever before. While planning for a robust second act, so too must you build out your financial plans to allow you to have the resources to do all the things you want to do in retirement. Providing for what are likely to be much longer twilight years also means providing for the challenges of reaching old age. This could include diminished physical and mental capacity, leading to unexpected nursing home or long-term care expenses.

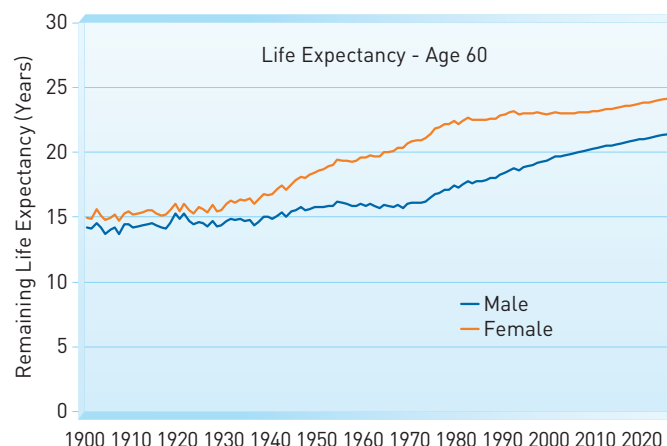
“Global aging is the most dramatic demographic change facing the world today,” notes Joseph Coughlin, Ph.D., Director of the AgeLab at the Massachusetts Institute of Technology.<sup>1</sup> Longer life

expectancies have had an impact on not only the economy, but business, legislation, health care, and many other aspects of our society.

Life expectancy has been steadily increasing for decades, but at such a slow incremental rate few have noticed just how much longer lifespans have become. The real possibility of living to an advanced age, and the financial impact that would have, has become a key consideration in financial decision making.

Long life is like a lottery; however, the odds of winning are improving. Based on current life expectancies, a 60-year-old man can expect to live to age 81. As recently as 1970, that same 60-year-old man had a life expectancy of age 76 (Chart 1).<sup>2</sup> Additionally, though not surprisingly, wealthier people, who tend to have

Chart 1  
Years of Expected Remaining Life of a 60-Year-Old



Source: Social Security Administration

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<sup>1</sup> Full interview available at: <https://fiduciarynews.com/2016/03/exclusive-interview-with-joseph-coughlin-why-the-retirement-fiduciary-cannot-ignore-age-longevity/>

<sup>2</sup> Life Tables for the United States Social Security, Actuarial Study No. 120, Available at: [https://www.ssa.gov/OACT/NOTES/as120/LifeTables\\_Tbl\\_10.html](https://www.ssa.gov/OACT/NOTES/as120/LifeTables_Tbl_10.html)

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greater access to health care, good food, safe living environments, and better education, have longer life expectancies than those with less. The life expectancy gap between those in the highest quintile of income and the lowest quintile is 12.7 years.<sup>3</sup>

Managing wealth for a longer lifespan requires planning in many areas. Here we explore planning for retirement, providing for future generations, philanthropic strategies and risk management.

## Retirement Planning

An increase in expected lifespan can have a substantial impact on the funds required to achieve your desired retirement lifestyle. A good first step toward determining what you will need is to conduct a financial accounting of where you are now, what you would like to spend in retirement, and what you would need to get there.

Determining an appropriate amount to contribute toward your retirement goals requires consideration of various factors. Among the factors to consider are post-retirement expenses, income from investments and/or continued employment, Social Security benefits, any defined benefit plan income, taxes, your desired income in retirement, and how many years you will need that income to last.

For example, since 1970 the remaining life expectancy of a 60 year-old male has increased 4.72 years.<sup>4</sup> If your post-retirement

income goal is \$200,000, the increased lifespan would result in needing an additional \$944,000 of retirement assets.

## Planning for a Longer Retirement

The following are a number of questions to consider and discuss with your advisors:

- If you haven't yet retired, is your current contribution rate, given your age and how much you have already saved, sufficient to support an income stream for a long lifespan?
- If you are close to retirement or already retired, what spending rate can your assets sustain, given the potential for a 30-plus year retirement?
- If you are considering reallocating your investment portfolio towards a more conservative, fixed-income allocation upon retirement, does the potential for a longer lifespan change the timing of that reallocation?<sup>5</sup>
- If you are relying in part on an inheritance from family members, what impact would it have on your retirement plans if those family members live to an advanced age?
- With a potentially longer lifespan, would delaying Social Security benefits be appropriate?
- If the risk of outliving your retirement assets is a concern, would allocating a portion

<sup>3</sup> Research Paper No. 2007-01, "Mortality and Lifetime Income Evidence from Social Security Records," (Duggan, Gillingham, Greenlees), Available at: <https://www.treasury.gov/resource-center/economic-policy/Documents/rp2007-01.pdf>

<sup>4</sup> Life Tables for the United States Social Security, Actuarial Study No. 120, available at [https://www.ssa.gov/OACT/NOTES/as120/LifeTables\\_Tbl\\_10.html](https://www.ssa.gov/OACT/NOTES/as120/LifeTables_Tbl_10.html)

<sup>5</sup> Life expectancy is only one of the many factors to consider in selecting an appropriate allocation of your investment portfolio. Refer to the article, "Strategies for Reaching your Retirement Goals," produced by the PNC Center For Financial Insight for additional details.

of those assets to a lifetime annuity help to reduce the concern?

## Passing on the Wealth

Living to an advanced age may lead to complicated family and financial dynamics, which need to be weighed when thinking about wealth transfer goals.

Gifting strategies are often proposed as a means of passing on wealth to children and grandchildren. Such strategies may also provide tax advantages by shifting income tax burdens to family members in a lower tax bracket or by reducing estate and inheritance taxes. A careful analysis should, however, be performed prior to employing any gifting strategies to allow for sufficient income during what could be an extended retirement period.

## When Your Spouse Remarries after You're Gone

Improved health and longevity has led to an interesting societal dynamic involving marriage. A study by the Pew Research Center found that 57% of previously married individuals remarried after age 55. Spouses often develop their estate plans based on shared family goals they have as a couple. But when a new spouse, and potentially an entire new family, is brought into the mix, goals may change that require changes in estate plans.

There are estate planning strategies that may be implemented in consideration of this potential dynamic. For example, a qualified terminable interest property (QTIP) trust is designed to provide income

to your spouse upon your death, and requires your chosen beneficiaries, most likely your children, to receive the remainder upon your spouse's death. Should your spouse remarry, they will not have the option of changing who receives the inheritance.

## Guarding against Elder Abuse

As lifespans extend, the risk of financial exploitation or abuse increases. According to a recent study, the annual loss by victims of elder financial abuse is estimated to be at least \$2.6 billion.<sup>6</sup> And the numbers are most likely higher due to the failure of many victims to report abuse. Trusts may be used to provide lifetime protection of assets and an effective means of passing on wealth at death. Specific types of powers of attorney may be executed to protect from financial exploitation as well. It is important to seek the advice of professional legal counsel when considering these options.

## Unintended Philanthropic Consequences

The possibility of a living to an advanced age can affect the timing and nature of a planned gift. Some strategies might not be the best option for the charity. For example, life expectancies should be taken into considerations when considering a charitable gift annuity (CGA). A CGA is a common technique that involves a contract between a charitable organization and a donor in which the donor makes a lump sum contribution to the charity in return for a lifetime income stream. While such agreements may be beneficial to both

<sup>6</sup> MetLife Mature Market Institute, "Broken Trust: Elders, Family and Finance," 2009, Available at: <https://www.metlife.com/assets/cao/mmi/publications/studies/mmi-study-broken-trust-elders-family-finances.pdf>

parties, should the donor live well past their life expectancy, the charitable organization may end up paying out more than they received. There are other planned giving techniques, such as charitable remainder trusts, that provide lifetime income streams to the donor without placing the longevity risk on the charity.<sup>7</sup>

Another example involves the use of charitable bequests, one of the more common forms of planned giving. Receipt of the charitable gift may be delayed for many years should you live to an advanced age. In addition, the will may be contested, probate may delay the distribution of funds, and long-term care costs may eat up what the charity would receive. An alternative would be to consider a donor-advised fund,<sup>8</sup> which would provide the option of making charitable gifts, provide a tax benefit, and may provide an additional level of protection for funds earmarked for charitable gifts upon death.<sup>9</sup>

## Caring for an Aging Parent

As lifespans increase, so does the risk of needing long-term medical care. The financial burden of caring for an aging parent may fall upon their children, negatively affecting their ability to reach financial goals. Conflict between siblings may also arise as they determine the best way to care for parents and how to allocate the time and financial cost

of that care. One option may be for family members to combine financial resources to acquire long-term care insurance for their parents.

If you have cash value life insurance and you no longer need the same amount of death benefit because, for instance, your children have become financially independent adults or you have paid off your mortgage, you may want to consider using the cash values to supplement your income. Another option would be to repurpose the cash values through what is known as a tax-free 1035 exchange to acquire long-term care protection.<sup>10</sup> The cash values may also be exchanged tax-free for an immediate annuity to provide a lifetime income stream for you and your spouse.

And finally, many so called “permanent” life insurance policies cease providing death benefit protection at a certain age. A review of your policy will uncover if the policy contractually matures at a certain age, was designed to only provide coverage through a certain age, or is at risk of lapsing prematurely.

According to the Pew Research Center, the number of centenarians worldwide grew from 95,000 in 1990 to over 450,000 in 2015, with a projected 3.7 million by the year 2050.<sup>11</sup> While living to age 100 may still be a statistical long shot, the potential for living to an advanced age has increased substantially and should be considered when planning for the future.

### For more information, please contact your PNC advisor.

<sup>7</sup> Refer to the article, “Charitable Remainder Trusts,” produced by the PNC Center for Financial Insight for additional details.

<sup>8</sup> Refer to the article, “Donor Advised Funds,” produced by the PNC Center for Financial Insight for additional details.

<sup>9</sup> Refer to the article, “Charitable Giving Strategies,” produced by the PNC Center for Financial Insight for additional details.

<sup>10</sup> IRC Section 1035

<sup>11</sup> Pew Research Center, “World’s centenarian population projected to grow eightfold by 2050,” April 21, 2016, Available at: <http://www.pewresearch.org/fact-tank/2016/04/21/worlds-centenarian-population-projected-to-grow-eightfold-by-2050/>

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