

## RETIREMENT



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## Gender Differences in Longevity and Aging

How does women living longer affect a financial planner?

By Peter Klein, CFA<sup>®</sup>

**Most articles on** the subject of longevity give only a superficial reference to gender differences, but the differences can be substantial. We often hear anecdotal stories of nursing home residents being mostly female. There are sound scientific biological reasons for why women live so much longer than men, and advisors need to be aware of those differences.

### BIOLOGICAL AND SOCIAL DIFFERENCES IN GENDER

Women typically live longer than men due to certain biological advantages, including enhanced immune systems and protection from the effects of atherosclerosis prior to menopause. Another important factor is that women are far more proactive than men in accessing healthcare. Women are also better at building and maintaining a support system of family, friends and acquaintances — although about 20 percent of American women have elected not to have children. Women also manifest different aging characteristics and, because of longevity, are more likely to develop dementia.

### THE FEMALE VVPREDICAMENT

While women tend to resist disease better in general, they're more vulnerable to diseases such as osteoporosis. Menopause can trigger a rapid reduction in bone mass, while men experience a more gradual loss of bone. Of the estimated 10 million with osteoporosis, about

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80 percent are women; and of those, one in two over age 50 will break a bone. Paradoxically, women's enhanced immune systems also make them more susceptible to autoimmune diseases (AD),



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which strike women three times more often than men. Diabetes can have a more devastating effect on women's health, increasing the risk of heart disease by six times more than those without. As women age they experience shrinking muscle mass, which can correlate with declining cerebral blood flow. What all these diseases have in common is that they can lead to cognitive impairment. Osteoporosis bone loss has been shown to predict cognitive decline. Mild cognitive impairment (MCI) is a related condition that often precedes the development of Alzheimer's-type dementia. Some studies suggest that up to 40 percent of seniors will be affected by MCI, and many of these patients will go on to develop Alzheimer's.

Refer to the graph illustrating the various degrees of dementia. Up to 50 percent of Americans aged 80-85 will suffer from some form of dementia. The Alzheimer's Association estimates one in three will die from it.

Dementia cases are expected to more than double over the next several decades and outpace both heart disease and cancer in terms of cost. Statistically, most assisted living medical claims are from the neck up.

Retirement is typically the first act of a three-act play. As aging progresses, some retirees will find the need to transition to a continuing care retirement community and — as the body loses its ability to care for itself — long-term care in the form of assist-

ed living, followed by nursing home care. As passionately as we may deny the inevitability of aging and claim that this only happens to other people, the reality is that if we live long enough, we will experience all three stages as the aging process inexorably takes its toll on the human body.

## LONG-TERM CARE PLANNING

Preparation while in possession of one's mental faculties is essential. We take our health for granted and assume our mental faculties will remain unchanged, but that's clearly a fallacy. And for someone suffering from cognitive impairment, even moderate tasks can be perceived as overwhelming.

People tend to put off addressing uncomfortable subjects such as aging, morbidity and their ultimate demise. According to Judith Johnson, a human values and social behavior author whose work focuses on human behavior and self-sabotaging attitudes, about 80 percent of Americans do not put their personal affairs in order before they die or make proper arrangements for their care when they are unable to care for themselves.

Advisors should aid their clients in dealing with the challenges associated with aging, including: how to plan for, fund and implement retirement and beyond, and how to minimize the risk of an interloper

taking advantage of a client's reduced cognition to seize the estate.

## CATEGORIZATION OF LONG-TERM CARE FACILITIES

From the perspective of the average client, long-term care typically involves a senior nursing home facility whose occupants are physically compromised and in need of round-the-clock medical attention. Most prospective clients naively see the transition as rather abrupt. One day the person is mobile, active and animated; then suddenly they are feeble and ready to be placed in a nursing home. In actuality, the aging process is gradual. Its progression can take years before impacting activities of daily living (ADLs).

Clients need to be educated about the wide retirement community options available. Continuing care retirement communities (CCRCs) offer part independent living, part assisted living and part skilled nursing home. Effectively, CCRCs offer a tiered approach to the aging process by accommodating residents' changing needs. Upon entering, healthy adults can reside independently in single-family homes, apartments or condominiums. They offer activities, physical fitness programs and socialization opportunities. When assistance with every-

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day activities becomes necessary, adults can transition into assisted living or nursing care facilities. These communities give older adults the option to live in one location for the duration of their life, with much of their future care already planned. These facilities allow individuals to remain independent in an environment that maximizes their autonomy, dignity, privacy and safety while facilitating family and community involvement. Studies have shown that seniors who maintain an active social life can delay the onset of dementia.

## COST OF ASSISTED LIVING OR NURSING HOME

Most advisors are aware of the expense of retirement communities. CCRCs typically require an entrance fee in the range of \$100,000 to \$1 million and monthly charges ranging from \$3,000 to \$5,000, which may increase as needs change. Additional fees may be incurred for other options including housekeeping, meal service, transportation and social activities.

Alternatively, according to the National Association of Insurance Commissioners (NAIC) long-term care study, the national average for a private nursing home room is in excess of \$200 a day or \$75,000 a year, while the average assisted-living private room is \$2,714 a month or \$32,572 a year. The average length of stay in a nursing home is 875 days (2.4 years). The average length of time from Alzheimer's diagnosis to death is eight to ten years as referenced by the Alzheimer Association. Clients need to be reminded that Medicare does not cover the cost of a nursing home when custodial care is the only care a person needs; rather it typically covers nursing home care as part of temporary rehabilitation post-hospital care.

## IN LIGHT OF THESE CHALLENGES

One option is to investigate special purpose life insurance products with long-term care

riders, and thereby offload longevity risk, duration of long-term care (LTC) expense and capital market risk on behalf of the client. Hybrid life insurance policies with long-term care riders have become increasingly popular. These policies offer the flexibility of a death benefit in the event of an untimely death, but also offer a long-term care benefit that can be accessed without the usual hurdle of meeting two of the six daily assisted living requirements. The policy empowers the primary physician to determine accessibility, and there is no elimination waiting period before payments can begin.

The policies are based on the reimbursement model (insured or care facility submits bill for payment) to reduce fraud, rather than offering an indemnity payout (check paid directly to the insured). Given the carrier-imposed protocol to accessing funds, it's less likely that those payments can be diverted to the disadvantage of the insured.

The payments are not subject to income tax. Several carriers offer these types of products. For example, a 60-year-old woman, non-smoker, who puts \$50,000 into a hybrid policy with an inflation rider can receive monthly benefits at age 80 in the range of \$4,600 a month for at least six years.

Annuities with long-term care riders are another possibility. Similar to hybrid life

insurance, they offer benefits over other kinds of retirement products, especially for those who cannot deal with the risk of market volatility and the proportionate loss of their retirement savings. A 2006 law provides that distributions from an annuity that reimburse long-term care expenses are tax-free when certain requirements are met, but only these specialized annuities would typically meet the requirements. The annuity still qualifies for the usual tax deferral of interest earnings of the annuity.

Sophisticated retirement planning is challenging but can be a source of immeasurable assurance in old age. There are many variables such as longevity, interest rates, market volatility, healthcare costs and potential changes in access to advanced medical care and cost. The key is for advisors to make the case to not postpone planning for retirement and to educate clients of the risk of dementia in old age. Planning for retirement is a challenge for those without cognitive impairment. It's unlikely that a person with even mild dementia would be able to navigate by herself the decisions required to properly plan and fund the transition to an assisted living facility. This only serves to underscore the important role of a financial advisor. ■■■

## COGNITIVE DECLINE

