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Expanding Challenges for the Sandwich Generation

Millions of Americans in the sandwich generation are struggling with complex challenges of how to simultaneously care for aging parents and children while trying to work, and save for college and retirement. With increasing life expectancies, the important questions are how to prepare and pay for this longevity?

Approximately 10,000 Baby Boomers, people born between 1946 and 1964, turn 65 each day and will continue to do so until 2030. At that time, Baby Boomers who will have turned 65 will represent 18% of the nation's population of age 65 and older.[1]

The traditional view of retirement has changed before our eyes. No longer are retirees retiring to the front porch in a rocking chair. Today, retirees are going back to school, volunteering, starting businesses or second careers, and even running for public office. They want to stay busy and active with this newfound extended life, and the advances in modern medicine, technology, and healthier lifestyles are allowing them to do so.

MANY AMERICANS ARE NOW PLANNING TO SPEND 30 OR MORE YEARS IN RETIREMENT

Source: Transamerica Center For Retirement Studies

For a 65-year-old today, there is a 25% probability of a male living to 92, female living to 94, and at least one spouse living to age 96.[2]

This new longevity presents some good news and some bad news. Good news for those who are prepared mentally, physically, and financially. And bad news for those who may not be.

Gerontologist and author, Ken Dychtwald states, "There are many people who believe we're on the brink right now of extraordinary breakthroughs that could very well add another two, three, or five, even 10 or 20 years to our lives." He believes the longevity revolution changes everything, "having a bigger transformation impact on who we are and how we live and the competitiveness of nations than either of the industrial or technological revolutions of previous centuries. And it surely is going to have a huge impact on how much money people need to live with security and comfort throughout their lives. Because if you're going to live 61 years, you need different resources than if you're going to live 91 years."

Financial Considerations - This longer and more active retirement will require income to last much longer than many are prepared for. Accounting for inflation in our income plan is critically important to help keep pace with the rising cost of goods and services over this longer period. And, with the growing stress on entitlement programs such as Social Security and Medicare, we will likely see continued changes in income tax policy. Those that have done well in accumulating considerable wealth in retirement plans may be facing a tax bomb when they are required to begin taking Required Minimum Distributions (RMDs) at age 70½. Proper tax planning, with an emphasis on tax-efficient wealth accumulation and distribution, may help minimize taxes to the owner and beneficiaries.

[1] Pew Research Center

[2] 2012 Individual Annuity Mortality Basic Table, Society of Actuaries

Since the fear of outliving their retirement savings is a major concern for many retirees, it's surprising more people do not have a written financial plan or work with a financial planner or advisor. According to the VOYA Retirement Research Institute's Readiness for Retirement survey, only 17% of workers and 26% of retirees have a formal written financial plan.

With longevity presenting a greater chance of outliving retirement resources, retirees may want to have a significant percentage of guaranteed lifetime income. One option is Social Security benefits, if eligible. If Social Security is the only income source the recipient has, they may be living near or below the poverty level. According to the Social Security Administration, the average Social Security check in 2015 was $1,335 per month with the maximum being $2,663 per month for the highest income earners.

Electing Social Security benefits is where many costly mistakes are made. There are various options that can have a significant effect on benefits over one's lifetime and for a surviving spouse. Those that choose to receive Social Security benefits at age 62 will receive as much as 25% less than if they had waited until their full retirement age (FRA), which is between age 65 and 67 depending on the year they were born. Also, deferring benefits past their FRA will allow for 8% growth per year on those benefits up to age 70. Deferring benefits may also provide a spouse a larger widow's benefit.

Those who plan to continue working while receiving Social Security benefits before their FRA may have a reduction of benefits based on their earnings. If they earn more than $15,720 per year in 2016 and are not yet at their FRA, then they will have $1 reduction in benefits for every $2 in earnings above this limit. There is no limit on earnings beginning in the month a person attains FRA.

At any age, up to 85% of Social Security benefits can be taxed depending upon the Modified Adjusted Gross Income (MAGI) of the recipient:

2016 Taxation of Security Benefits

Tax Filing Status	50% Taxable	85% Taxable
Married Filing Jointly	$32,000 MAGI	$44,000 MAGI
Single	$25,000 MAGI	$34,000 MAGI

Those who are receiving certain government pensions may have a reduction in Social Security benefits due to the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO).

The Bipartisan Budget Act of 2015 is closing the door on the popular Social Security spousal claiming strategy of "File and Suspend" after April 29, 2016, and placing restrictions on the "Restricted Filing" option. With Social Security and Medicare funding challenges, we may continue to see changes in the future. The number of workers for each Social Security beneficiary fell from 5.1 in 1960 to 2.8 in 2013. Projections are that by 2040 there will only be 2.1 workers for each Social Security beneficiary.[3]

Some annuities can provide guaranteed lifetime income over the life of the owner, or in some cases, the lives of both spouses. There are many different types of annuities and various benefits, and unfortunately, at times, they have been abused by some advisors who recommend them in all situations. Annuities can play an important role, but investors should work with a Certified Financial Planner™ professional in determining if annuities should be part of their overall retirement income plan.

We have seen a shift from pension plans (defined benefit plans) funded by employers, toward 401(k), 403(b), and others (defined contribution plans) funded by employees. This puts greater emphasis on funding one's retirement savings. The Transamerica Center for Retirement Studies found that 66% of retirees wish they would have saved more on a consistent basis and 68% wish they would have been more knowledgeable about retirement savings and investing.

[3] Social Security Administration

Another financial challenge for conservative retirees is the low-interest rates we have experienced. Those that have a large percentage of retirement savings in low-interest accounts may be going broke safely by not staying ahead of the inflation rate. The *Rule of 72* determines how long it will take to double your money at various rates of return. Examples:

1. **At 1% rate of return: 72/1 = 72 years**
2. **At 5% rate of return: 72/5 = 14.4 years**

Conservative investors are more likely to own more bonds than aggressive investors. As interest rates rise, this can have a negative effect on bond prices because of the inverse relationship interest rates have with bond prices. This is especially true for long-term bonds. As interest rates dropped from the highs of the 1980s, bonds did well in general. The challenge now is how to position bond portfolios to help manage this interest rate risk going forward. This is why understanding the various types of risks, and exploring investment options are important in creating an overall retirement income plan.

Medical Considerations - A common challenge for those retiring early is obtaining health coverage before the Medicare age of 65. This is often provided through COBRA (Consolidated Omnibus Budget Reconciliation Act), private insurance, spousal coverage, or retiree coverage if provided by the company. Some companies that have offered free or low-cost retiree health benefits are now having to pass on more of the cost to retirees.

Another very important consideration is Long-Term Care. This is the type of care a person would need if they are unable to care for themselves or need help with one of the following six Acts of Daily Living (ADLs): eating, bathing, dressing, toileting, transferring (walking), and maintaining continence. This is considered custodial care versus skilled care provided by a medical professional.

Long-term care can be provided in a variety of settings. It can begin in the home and then progress to an adult day care or an assisted living facility. Nursing home care would provide a higher level of care and supervision. *"70% of people turning 65 can expect to use some form of long-term care during their lives."*[4]

The national median costs are listed below but can vary greatly depending on location and services.

Type of Care	National Median Cost
Homemaker Services	$20 per hour
Home Health Aide Services	$20 per hour
Adult Day Care (ADC)	$69 Daily
Assisted Living Facilities (AFL)	$3,600 Monthly
Nursing Home Care, Semi-Private	$220 per Day
Nursing Home Care, Private	$250 per Day

Source: Genworth 2015 Cost of Care Survey, Conducted by CareScout®

For some, the best way to protect against this risk is through the purchase of a comprehensive long-term care insurance policy, but it can be expensive. But not having it may be more expensive, especially for those who are married and have assets to protect. An extended care could potentially wipe out the retirement savings for a surviving spouse.

A few life insurance companies are beginning to offer combination policies with coverage for both life (death benefits) and long-term care benefits. Also, some life policies may offer Accelerated Death Benefits (ADB) riders. This allows a tax-free portion of the death benefit to be accessed early if the insured is diagnosed with a terminal illness, or in some recently issued policies, if the insured needs long-term care in a facility. Review life insurance policies to determine if this rider is available.

Medicare provides very little coverage, if any, for long-term care. To qualify for Medicare, expenses must be for skilled care (most care is custodial) and then it will provide very little coverage for a limited period of time.

Medicaid, on the other hand, may provide coverage for those with little income or resources. Medicaid is

[4] Longtermcare.gov

a joint federal and state program that helps pay for certain health services. The drawback with this care is that the recipient may have to spend down assets to qualify for it, which could leave a spouse in a difficult financial situation. Any gifts or transfers for less than the full market value within five years will be recaptured for Medicaid purposes. Those needing to qualify for Medicaid should seek the advice of an Elder Law attorney with specialization in Medicaid planning.

Legal Considerations - Having all legal documents drafted by an attorney and in place is critical for everyone. This includes, but is not limited to: will, living will, durable power of attorney, health care directive, medical power of attorney, and letter of instruction.

Trusts should be considered for a wide variety of situations, including those with a special needs child or parent, to hold and manage assets, and to address estate tax and planning issues.

In addition to having the legal documents in place, families should have important discussions regarding their wishes at the end of their lives.

In his book titled *Being Mortal*, Dr. Atul Gawande states, "Our reluctance to honestly examine the experience of aging and dying has increased the harm we inflict on people and denied them the basic comforts they need the most. Lacking a coherent view of how people might live their lives successfully all the way to their very end, we have allowed our fates to be controlled by the imperatives of medicine, technology, and strangers."

Facing these Challenges - With the Sandwich Generation being pulled in many directions, it is important to be proactive in planning, not just for aging loved ones, but also for caregivers. By visualizing their ideal retirement, working with professional advisors and planning, people can be better prepared to live out the later third of their lives on purpose, for the reasons important to them.

Action items:

1. Discuss and document what is important
2. Create a cash flow plan (income & expenses)
3. Organize financial, legal, and key information
4. Consult with professional advisors
5. Focus on proactive planning
6. Research housing & care options
7. Explore resources including:
    - The Sandwich Generation by Pew Research
    - Transamerica Center For Retirement Studies
    - VOYA Retirement Research Institute's Readiness for Retirement Survey
    - SandwichGeneration.org/resources
    - Caregiving.org/resource
    - Longtermcare.gov
    - SocialSecurity.gov
    - Medicare.gov
    - Medicaid.gov

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