

ANNA RAPPAPORT CONSULTING

STRATEGIES FOR A SECURE RETIREMENTSM



Spending and Saving in Retirement Symposium

Spending Decisions in Retirement:
What Choices Can People Make?

SOA Annual Meeting: Session 59

October 16, 2007



Paper goals

- Understand spending decisions in retirement
- Choices that people make
- Uses data and anecdotal evidence



Research results

- Income and spending drop at 65-74 compared to younger ages
- Percentage of income spent increases by age
- At 75+, spending bigger than income for lower income persons
- Not clear—does income drive spending?
- Spending varies by age
- Housing is biggest item of spending



Research results

Average Annual Expenditures

	Annual Amount Spent		Percentage of Total	
	Age 65-74	Age 75+	Age 65-74	Age 75+
Food & Alcohol	\$4,803	\$3,446	14.9%	14.5%
Housing	\$10,052	\$8,257	31.2%	34.8%
Apparel and Services	\$1,252	\$674	3.9%	2.8%
Transportation	\$5,731	\$3,178	17.8%	13.4%
Health Care	\$3,588	\$3,584	11.1%	15.1%
Entertainment	\$1,371	\$896	4.3%	3.8%
Miscellaneous	\$1,973	\$1,288	6.1%	5.4%
Cash Contributions	\$1,620	\$1,740	5.0%	7.3%
Personal Insurance	\$1,853	\$696	5.7%	2.9%
Average Annual Total	\$32,243	\$23,759	100.0%	100.0%

Source: Mature Market Institute Demographic Profile, Americans 65+, 2006



Research results

Average Annual Spending per Household

	Annual Income	Annual Spending	Percentage
Younger Boomers (Born 1956-64)	\$56,500	\$45,149	79.9%
Older Boomers (Born 1946-55)	\$58,889	\$46,160	78.4%
Americans Aged 65-74	\$35,118	\$32,243	91.8%
Americans Aged 75+	\$23,890	\$23,759	99.5%

Sources: Mature Market Institute Demographic Profiles, Americans 65+, 2006 and American Baby Boomers 2006



Decisions people make

- “Mapping Your Future”—five categories for planning
 - Health
 - Work & leisure
 - Financial
 - Housing
 - Relationship



Hierarchy of decisions

- Longer term
 - Housing—where to live and what type of housing
 - Financial management—should I buy an annuity
 - Spending down assets vs. working for more income vs. borrowing or reducing spending
- Intermediate term
 - What health insurance arrangement to choose
 - What car to use/buy
- Very short term
 - Eating out vs. cooking at home
 - How much clothing to buy
- Big dilemma—enjoy life now vs. saving more for later



Needs change over time— Story of Joan

- Use a story to understand how needs change
- Example, not an average and may not be typical
- Start with
 - Joan at 67, Robert at 72
 - Retired and happy
 - Active and walk daily
 - Traveled extensively recently to see many friends and family
 - Four children—in different locations
 - Attend several study groups



Joan at 70: Meeting her dreams

- Robert—age 75
- Active/walk daily
- Slowing down
- Own home in suburb
- Happy
- Enjoying retirement
- No special costs



Joan at 73: Trying to manage her life

- House and yard care is hard
- Trapped in winter
- Exploring new housing options
- Health—Joan good, but Robert no
- Joan very concerned about how to manage



Joan at 75: Making adjustments

- Widowed
- Relocates to independent living
 - Dinner provided
 - Weekly cleaning
 - Activities
 - Transportation
- Cost = \$2,500 per month



Joan at 76: Facing more challenges

- Diagnosed with Parkinson's
- Medications
- Stops driving
- Cost—\$2,500/month for facility
- Health benefits from Robert's former employer pay for drug costs



Joan at 77: Needing help and care

- Needs help with bill paying, shopping, errands, and doctor's appointments
- Can still take short walks independently
- Family members spend about 6 hours weekly helping Joan



Joan at 79: Needs more care

- Can't manage medication
- Can no longer use answering machine
- Paid helper 3 hours per day + family member 6 hours per week
- Cost—Housing \$2,500 per month +
- \$1,200 per month for helper



Joan at 80: Needs more care again

- Needs help with bathing, dressing and medication
- Moves to assisted living
- Family member helps 2 to 3 times/week
- Cost = \$4,000 per month
 - All meals
 - Administering medication
 - Assistance with daily activities



Joan from 80 to 84

- Capabilities gradually decline
- Assisting living induced changes
 - Insist she goes to higher level assisted living—can't manage
 - Then are no longer able to care for her at all
- Loses ability to communicate



Joan at 84: Totally dependent on others

- Extreme difficulty walking
- Can't feed herself
- Confused sometimes
- Difficulty speaking
- Moves to nursing home
- Cost = \$6,000 per month for nursing home



Observations

- Decisions about what to do needed as situation changed
- Average family could not afford
- Support needs increase—money and help
- Family members important
- Long-term care insurance
 - Benefit eligibility varies
 - Probably eligible at 80
- Several changes of housing/location were involved



Housing and location

- Biggest decision: More than 30% of average spending
- Linked to meeting our dreams
- “Your housing means much more than a roof over your head. Home is your community, your friends, often a lifetime of memories.” Council of Jewish elderly
- Must recognize
 - Wide range of choices
 - Job requirements if still working
 - Physical limitations
 - Needs for care
 - Transportation and services nearby
 - Biggest downsizing opportunity



Travel

- Big part of many dreams
- Some retirees travel a lot at modest cost
- Options for travel at lesser cost
 - Elder hostels
 - Off-peak travel and specials
 - Stay with family and friends
 - Go cross country in a camper



Health care

- Spending increases by age
- Huge variation in what individuals spend—2/3 of \$ spent by 10% of the population
- Decisions and questions
 - How can I choose a good cost effective provider?
 - Where can I get insurance?
 - Should I choose a Medicare Advantage plan or supplement?
 - What about Part D?
 - How do I buy drugs effectively?
- For Medicare eligibles, plan chosen will have big impact over next year



Health care

Concentration of Health Spending in the United States—2003

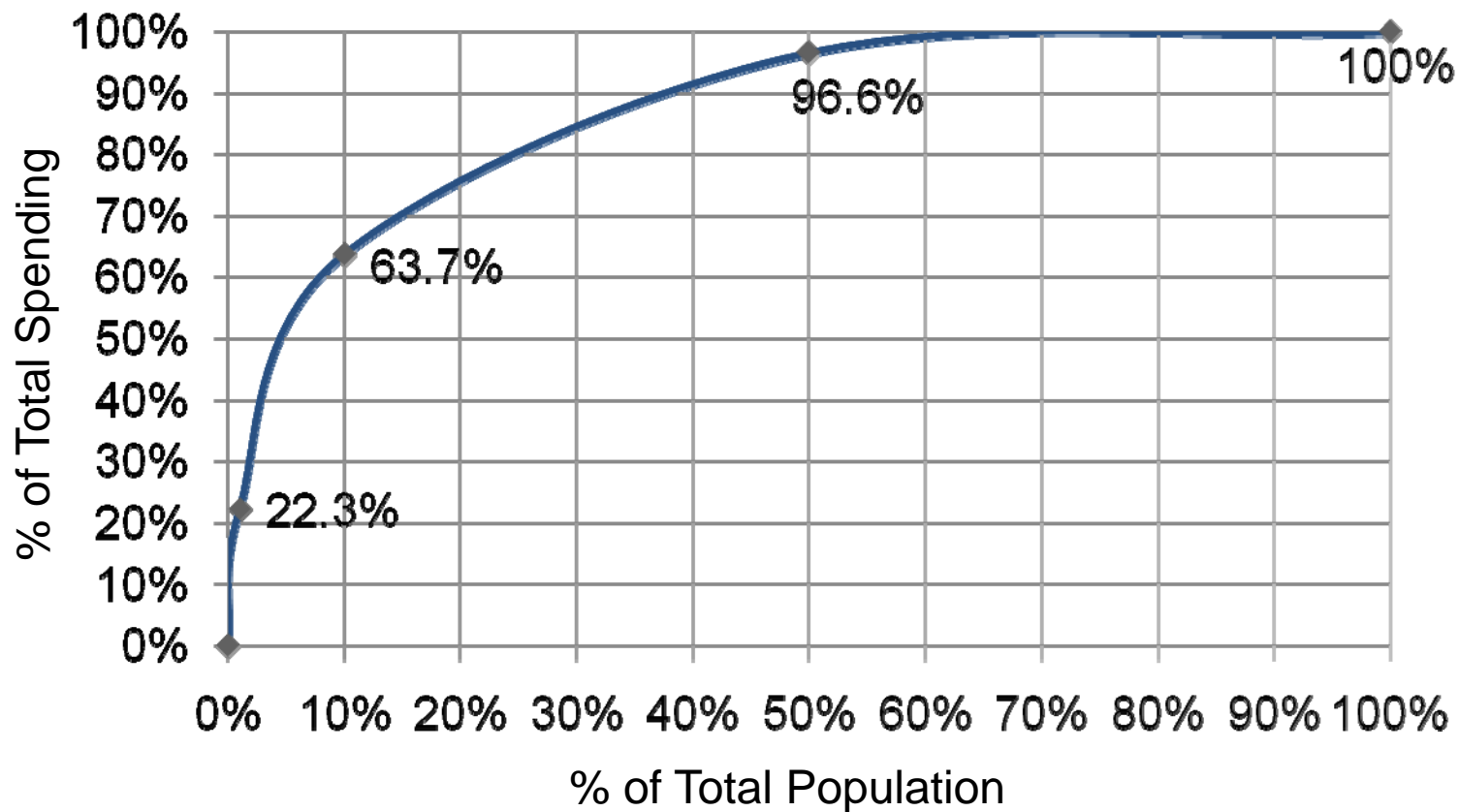
Part of population ranked by health spending	Percentage of total spending	Average amount spent by this group as multiple of average for all
Top 1%	22.3%	22.3 X
Top 5%	48.7%	9.7 X
Top 10%	63.7%	6.4 X
Bottom 50%	3.4%	0.1 X
Bottom 90%	36.3%	0.4 X

Source: Kaiser Family Foundation, Trends and Indicators in the Changing Health Marketplace, Exhibit 1.11, updated 4/11/2005 with added calculations by author.



Health care

Concentration of Health Spending in the United States—2003





Long term care

- Do I need to buy insurance?
- What should I buy and from whom?
- If I don't buy insurance, how much do I need to save?
- How can I be positioned for the right care options if I need care?
- Costs in 2006
 - \$2,700/mo for one bedroom in Assisted Living
 - \$171/day—semi-private room in Nursing Home
 - \$194/day—private room in Nursing Home
 - \$25/hour—Home Health Aide



Conclusions

- Many decisions needed
- Choices drive spending/lifestyle
- Needs change over time
- Housing biggest issue

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