Financial Gerontology

Looking into the Crystal Ball and Seeing Gray: Predictions for Financial Services

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With the new year dawning, the editor of the Journal presented its columnists with the opportunity to make some predictions about the future of financial services from our perspectives and what we envision in the next 10 years. When your field is gerontology, or the study of aging, the road ahead is paved in gray. It's hard to believe, but the first wave of baby boomers turns 65 in 2011, followed by an onslaught of other boomers.

The aging of the population offers many opportunities and perhaps some surprises for financial service professionals. This may require a shift of thinking to meet the needs of this new breed of retiree. Looking into the crystal ball, here are some of my thoughts and predictions about the future of retirement.

1. The Concept of Retirement Will Be Redefined by Boomer Retirees

Already, we are seeing a change in the definition of "retirement." For the "young-old"—those in their 60s and 70s—retirement is no longer synonymous with a 20-year paid vacation. They may be starting their own business, building homes for Habitat for Humanity, raising their grandchildren, or engaged in spiritual pursuits to provide more meaning in their lives.

The next generation will have even more expectations about their retirement years. They will spend more time on health and fitness than previous generations. They will not be as inclined to cut back on luxuries and their preretiree lifestyle. However, they may find that the money they have won't match up to their aspirations, and they may decide to keep working or find a job to supplement their income.

Some financial service professionals are reluctant to use the word retirement for fear of being out of touch with the changes that are taking place. But I predict that the word, rather than having negative connotations, will simply be redefined and will be accepted by all. Most of us will be comfortable with the word "retirement" if a variety of options are open to us and we have a stream of income to provide us with financial security.

The word "senior," however, will become a dinosaur and will be dropped from the vocabulary within the next 10 years when the boomers reach 65. They don't relate to it, associating it with "early bird" specials at restaurants and with senior centers.

It remains a struggle to come up with the appropriate word to describe the people who are 65 and over. But while I expect a new word to be born, I predict that the boomers, like their parents and grandparents before them, will nonetheless decide to join AARP in order to take advantage of the money-saving "senior" discounts.

This transition into this new stage of life—retirement redefined—offers financial service professionals opportunities to build on their clients' dreams and aspirations. Life-planning strategies will need to be incorporated into financial planning to respond to their boomer clients' desire to figure out what they want to do with the rest of their lives now that the kids are out of the house and they have some flexibility. Life planning allows the boomers to talk about themselves, which they like to do, and to re-explore what is most important to them—their core values and their life goals.

2. Planning for the Second Stage of Retirement—Old Age and Frailty—Will Become Accepted as Necessary

We know that the longevity rates are increasing, and with longer life comes the greater likelihood of developing conditions that will require long-term care. Those age 85 and over are the fastest growing population segment. Statistics indicate that about 50% of this group will need ongoing help with activities of daily living and/or will develop Alzheimer's disease or another type of dementia.

While it is a hard sell now for baby boomers in denial about old age, my prediction is that in the next 10 years we will reach the "tipping point" in awareness about the need to plan for long-term care and will see a boost in long-term care insurance sales.

The government, faced with deficits in Medicaid, will be more proactive in educating the public about

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taking personal responsibility for their own long-term care and will be more stringent in enforcing the "look-back" period for transfer of assets. Once data is developed that show that savings to the U.S. Treasury will occur, Congress will pass the legislation that offers incentives for individuals to purchase long-term care insurance and will support a national partnership program, an example of a public and private solution to the impending financing crisis.

3. Retirees of the Future Will Be More Apt to Seek Out "One-Stop Shopping" Services

It's been said that the baby boomers like the concept of concierge services—a "one-stop shopping" approach to getting the help and advice they need. As in every generation, there are people who like to plan and others who do not. The difference, however, with the boomers is that they are willing to buy services from someone they trust if it makes life simpler for them. Or at least that's what the boomer stereotype tells us.

In the next decade, financial service professionals will adjust their business practices to meet boomer demand for this kind of service. Financial service professionals, if they haven't done so already, will need to form cooperative arrangements with a variety of professionals—geriatric care managers, attorneys, accountants, and real estate agents to name just a few—in order to offer full services to their clients.

Boomers might need a real estate broker if they are planning to move to another location or an attorney who specializes in small business if they are starting a new venture. If they have aging parents—or are planning for their own frailty—they will need an elder law attorney to prepare living wills and durable powers of attorney. Geriatric care managers should be available to develop care plans and identify appropriate services if their parents need care.

To fit the one-stop shopping criteria, boomers will be looking for a comprehensive plan and perhaps combination products that will make their retirement planning easier. Financial service professionals will more frequently integrate long-term care planning into financial planning, making sure that assets are protected through long-term care insurance as well as advising on asset accumulation and retirement income.

An example of a combination product is one that combines an annuity with long-term care insurance, meeting two needs in one. Its purpose is to take care of income needs when the retiree is healthy and long-term care needs when frailty occurs, an approach that helps to satisfy the drive toward one-stop-shopping.

4. Future Retirees Will Be Open to Different Types of Living Arrangements

Research studies indicate that people want to remain in their own homes in retirement. But, particularly for the new breed of retirees, home might be in a new location and encompass a new style of living. Already we see evidence of boomers buying second homes, homes they might plan to retire to or use on a seasonal basis once they are no longer working full time.

The co-housing movement—people joining together to form their own communities based on their interests or friendships—is also beginning to blossom. Baby boomers, who have lived in dorms at college and are more at ease with support groups than earlier generations, are likely to be more open to these ideas. This will be especially true for those boomers who have no children or whose children live far away, or for women who will find themselves alone. Because more women are single, and the divorce rate among boomers is higher than in the past, architects and builders may find a ready market.

The concept is a good one. It brings to mind the TV series called "Golden Girls." A group of like-minded women (or men or couples, for that matter) might choose to live together or in close proximity so they can enjoy each other's companionship and share happy times. This type of living arrangement would enable them to share expenses to help stretch their retirement income and, as they age and need some assistance with day-to-day activities, the group members would be on hand to help with care and to provide emotional support.

Friends might decide to move into a house together or they might choose to rent apartments in the same complex. Or if they have the money, they may choose to build to suit their needs with separate independent living quarters adjoining a communal kitchen, dining room and living room. Provisions might be made for space for a caregiver should long-term care be needed down the road.

As for nursing homes, they will be reinvented and will not resemble the nursing homes of today. Boomers, even more than previous generations, want control as to how their care is delivered. Already we are observing changes in care delivery, with new initiatives enabling people to remain at home as long as possible. A few states now have Medicaid waivers using a "cash and counseling" model. Cash payments are provided to family members so they can arrange for or provide care at home rather than placing their loved one in a Medicaid nursing home.

Other experiments are transforming nursing homes into more humane environments. One model is Eden Alternative. Facilities are subdivided into smaller clusters, with meals prepared in smaller kitchens when the resident wants them rather than at specific times. The setting is more homelike, with plants, pets and pleasing decor. As old facilities are closed, nursing homes will be less institutional and instead will take on some of the positive characteristics of assisted living.

Financial service professionals of the future will need to understand the housing market to help individuals assess where they want to live in their retirement, whether remaining in their original home or relocated. They will also want to help them think through what each stage of retirement will bring and the housing needs for each—the first stage when they are healthy and active, and the second stage when they may need care and assistance with day-to-day activities.

5. There Will Be Fewer Caregivers to Care for the Elderly, Which Will Create Innovations in Care and Delivery

One consequence of the aging of the boomers is that they are likely to become caregivers to a parent or to a spouse, and in about 20 to 30 years will be at a stage of life when they will need care themselves. When they reach that stage, their adult children will provide the lion's share of care, but as is true now, will probably not be available to provide care full time. They will need to retain paid caregivers, but projections indicate that there will be a serious shortage of home care workers and nurses' aides, creating a potential crisis for boomers in their later years.

Home care workers and nurses' aides are low-wage earners, working in jobs that have no career paths and are physically and emotionally exhausting. They are doing the work that is personal and difficult—dressing, bathing, toileting, and feeding our loved ones. Yet they are paid a minimum wage for this work. Turnover has been high, and will continue in that direction unless some changes are made in employment practices.

I predict that there will be innovations that will attract more people to work in care settings. Successful home care agencies and institutions will develop training programs so caregivers can move on to jobs such as licensed practical nurse and receive higher pay and better benefits. Their work will be supplemented and enhanced by technology—for example, a monitoring system that can track a care recipient's movements, or systems that can dispense medications. And the long-term care insurance industry will create more products like the "cash and counseling" model to enable those in benefit to hire friends and family members rather than be restricted to hiring from home health agencies where help may be at a premium. Some companies have already introduced this type of product with success.

The financial service professional will find that the cost of care will increase at a faster pace than inflation with each passing year. Part of the rise in cost will be due to the labor shortage, already apparent. With this in mind, helping clients face the future and prepare for long-term care will be increasingly important with each passing year.

6. Changes in Social Security, Medicare, Retiree Health Benefits and Pensions Will Impact Boomers' Retirement Plans

Boomers reaching age 65 may be in for a surprise as they see what might happen to the entitlements they have counted on—Social Security and Medicare. The dependency ratio of workers to retirees may make it necessary to reduce entitlements or to raise the age of eligibility, and this will have a significant impact on the boomers when they move into retirement. The age of eligibility for Social Security has already been increased slightly, with future generations unable to collect full entitlements at age 65. New generations of retirees may find that they will have to wait well beyond that age to collect benefits.

Because of the skyrocketing costs of health care coupled with the large numbers of people who will reach age 65 in the next few years, it seems possible that the age for eligibility for Medicare may also be raised. This could be a blow for many, especially those who counted on their employer to pay for their health insurance through their retirement only to find that they will not receive it. As health care costs rise, more and more employers are dropping this retiree benefit that was once taken for granted.

The changes in retiree health benefits are happening simultaneously with another trend—the elimination of defined-benefit plans in favor of defined-contribution plans. In past years, many employees counted on a pension when they retired—a steady stream of income known as a defined-benefit plan. The company where they worked managed the allocations in the pension funds and issued the monthly checks. Employers are now switching to 401(k) plans or cash-balance plans, which are paid out in lump sums at retirement. This places the onus on the employee to understand how to allocate the investment during active employment and how to distribute it when he or she is no longer working.

Financial service professionals are positioned to play a key role to assure that employees are making sound decisions about utilization of their 401(k) money. Annuities might be a good solution to substitute for a traditional pension, providing the stream of income that people can count on every month. The rising cost of health care premiums needs to be taken into account. And providing for long-term care, which is not covered by any government program except for people with low income, becomes increasingly important to retirement security.

7. More Retirees Will Start Their Own Business Due to Desire or Necessity

Most Americans do not save enough money to live comfortably in retirement, as evidenced by the *Retirement Confidence Survey* that is issued by the Employee Benefit Research Institute each year. As a result, many cash-strapped boomers will need to extend their work life by remaining in their current job, searching for a new job or starting their own business. As we look to the future, there are some areas that have been identified that will have worker shortages in the next 10 years—nursing, teaching, health care, and government. Some experts predict that employers will need to reverse the early retirement trend and provide incentives in order to retain their talented older workforce. However, others point out that a slow economy and the increasing use of outsourcing may invalidate this prediction. Also, the skills required for the jobs that are available may not match those of the job seekers.

Another scenario is that the jobs of the future will be in small business or in entrepreneurship. These trends are already apparent. People may decide to start a business by choice (a long-term dream fulfilled) or by necessity (the unavailability of jobs). In either case, revenue produced from their businesses offer the potential to provide the income needed to replace or supplement other retirement income sources.

Financial service professionals, in advising for retirement in the future, may find that they will need to become versed in the ins and outs of starting a business. They may be called on to put benefit plans in place, to handle business investment strategies, and to factor in income and expenses related to the business into the overall retirement picture. And they will be looked to for advice on making sure assets and income, no matter what the source, will last a lifetime.

Painting a Different Picture: Wild Card Predictions

The future is difficult to predict and because it is the future, things are likely to occur differently than we expect. Before I end this column, I thought I would present my wild cards that might turn the future and the role of financial service professionals upside down. Use your imagination and think about these possibilities:

- Researchers will find a cure for many of the diseases that cause disability, or will discover ways to delay the onset of disease. One of these diseases could be Alzheimer's.
- The average lifespan will increase to 100 and people will live out their years in good health due to diet, medication, vitamin therapies and healthy aging.
- Because of pressure from providers, physicians, hospitals and consumers, the government will offer universal health care to all. Insurers will tailor products that are similar to Medigap programs or employer health benefits that will be sold to all Americans to supplement the national program.

- Immigration rates will increase significantly so that more younger workers coming to America will be available to pay into the Social Security system, alleviating the concern that it will be bankrupt as the boomers age.
- Boomers will become advocates and activists, leading the way to solve many of society's problems. In retirement, they will focus their efforts on education of the young, the environment, politics, and the greater good.

Now it's your turn. We know that the graying of America (perhaps your own graying) has caused many of you to readjust your business. And many of you are already working primarily in this market. You have your own insights and ideas of where we will be in the next few decades. Write to me and share your predictions. The crystal ball is now yours! ■

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A look at the future of retirement reveals changes caused by retiring boomers, new inroads in planning for old age and frailty, different types of retirement living, and a need for innovations in care and delivery caused by a shortage of caregivers.