

CONFIDENT CONVERSATIONS® on Retirement: Living and Long-Term Care Considerations for the Second Half of Retirement

Kim Zook: Welcome to T. Rowe Price's CONFIDENT CONVERSATIONS® on Retirement. My name is Kim Zook, and I'm excited to be your host. As a person who is naturally curious, I've dedicated my career to lifelong learning and asking the right questions to help people successfully prepare for retirement. My colleagues joining me today are financial professionals who also help people on their retirement journey, whether they are planning for retirement or already in it.

Today, we're going to discuss an essential topic for anyone approaching or already in retirement: planning for the mid-to-late years of retirement. While planning for the earlier and potentially more active part of your retirement is usually more enjoyable, the later part, often filled with unique challenges and opportunities, also requires thoughtful preparation and a clear understanding of your options when it comes to long-term care and senior living arrangements.

With me today to discuss planning for the second half of retirement are CERTIFIED FINANCIAL PLANNER™ professionals, Lindsay Theodore and Molly Burton. Welcome to the show, Lindsay and Molly.

Lindsay Theodore: Thanks for having us, Kim.

Molly Burton: I'm happy to be here.

Kim Zook: Great. Great. So first, Lindsay, knowing this can be an emotional topic. Can you tell me a little more about your interest in this topic and why it's meaningful to you?

Lindsay Theodore: Of course. So, I've spent 17 years helping families prepare for all things retirement related. And the unknowns of aging and affording long-term care was probably the top concern for most of my clients. And I realized that many of the educational materials available on the subject are either a fulltime job to piece together or they just induce a great deal of fear about the costs and don't really provide any real-world guidance on how to plan. So, and on a personal note, several family members have required long-term care support in recent years and finding resources for them was a challenge and we all regret not having that conversation and having a plan in place earlier. So all of that really prompted me to learn as much about this subject as I can so that I can pass that knowledge on to investors and hopefully help them gain some control over a seemingly uncontrollable and uncomfortable reality, which is that we're all getting older, we're all aging.

Kim Zook: That really resonates with me, Lindsay, because I think this is something many of my friends and family are also facing. Molly, I'm going to switch to you. Do you want to tell us a little bit about your experience and interest in this topic as well?

Molly Burton: Sure. So as a financial advisor, I have retired hundreds of times with hundreds of clients. And I think one topic that a lot of people had questions on was aging and figuring out how they can age in place or what their options are. And the first company that I ever worked for, after I got out of college, I did a pretty extensive research project where I went around to the continuing care retirement communities. In Maryland, we call them CCRCs. And I was gathering information for clients on the costs and benefits of these facilities. And, you know, we learned about the concerns about aging in an appropriate place and not burdening families. It's really one of the top concerns that my clients had that I was working with. Now, luckily, many of them had the financial resources to move into these places, but there is a lot of information to gather and a lot of numbers to run when I was doing this research project. And really the ultimate decision of where and whether they moved really came down to personal attributes of the community as much as the financial implications.

Lindsay Theodore: Definitely. Yeah. And I know we'll get into like what the options are for where to live, you know, when you're aging but I just wanted to point out, a recent study published in the Journal of Financial Planning helped to highlight kind of the general lack of knowledge in planning around older age. So, it found that most people had not seriously considered that a long-term care event might happen to them. That many were mixed about whether they were financially prepared for it, and that women and other caregivers generally expressed greater interest in planning for long term care, like they were more likely to acknowledge, "as I get older, I might need help." Health and Human Services, you know, estimates that 70% of adults over age 65 will need long term care support at some point in their lives. So, the likelihood is definitely there. And from Molly's and my experience, you know, the concern is there too, right? But I do find like people just take extreme mindsets, like, "I will not need it because I'm going to die early," which, you know, you don't know that. And then the second one is "I probably will need it, and if I do, it'll bankrupt me. So, I'd rather not think about it." And neither of those perspectives are realistic at all. And neither of them is really conducive to like, having a plan in place.

Also, as women, I'm sure you're not surprised that women are more likely to worry about and plan for long term care. You know, we already take on a great deal of invisible labor for our households. So, my hope with this podcast is to provide women and men with actionable, real-world guidance on how to prepare for the undeniable truth that as we age, we may slow down and require long term care support, and that's okay. It's a fact of life and actually, it means that you lived a long time and got to experience more great times with your loved ones. If you live long enough to need some help. So, but burying your head in the sand is not the right way to handle it, and neither is leaving all the worrying and planning to the ladies. Am I right?

(ALL LAUGH)

Kim Zook: You know, in all seriousness though, that is, that really resonates with me, Lindsay, as in my family right now we're, we're dealing with these decisions with both my parents and my aunt. So, burying our heads in the sand while it sometimes might feel a little safer, I certainly agree with you about trying to have a plan.

Lindsay Theodore: Sure.

Kim Zook: So, thanks again for that context. Let's discuss next the personal aspects of planning for the later stages of retirement. What's included in that?

Lindsay Theodore: Sure. So, the housing and lifestyle choices you make as you get older can have very different personal benefits and financial implications, like Molly was saying. In the second half of retirement or in those, you know, in your mid-80s, they're especially important because it can determine the kind of long-term care options available to you and how much those might be. It can also help to determine like, how much peace of mind you're going to have along the way, both for yourself and your family, like you were saying, Kim, I'm sorry that you're going through that with your folks and with your aunt. I mean, it is true that the person who's aging might feel more comfortable if they kind of know what the plan is and at what point they'll move, at what they might need to do to stay at home, and who's going to take care of them and all that stuff. But it also just helps the family, right? It provides a lot of peace of mind to know, "okay, if these things occur, this is what this is the next step. And Mom's agreed to it, Dad's agreed to it. We agreed to it." So, again, it can determine the peace of mind that you and your family can enjoy.

And, you know, ultimately, it's just important to kind of know what those options are, whether it's aging at home or finding another place like a CCRC, like Molly spent a lot of time researching. And then writing down your preferences, kind of in order of those options, like if you need help, what you'd prefer, and then talking to your loved ones if they're involved in needing to care for you, you're definitely going to want to talk to them about that because they're probably going to need to, you know, give you some buy in. So, but yeah, whatever choice you make, you know, hopefully will balance personal fulfillment and financial affordability, right?

Molly Burton: And if you're like most Americans or clients that I have worked with, a lot of people prefer to age at home, they're a lot more comfortable, they feel a lot more safe instead of making a big switch or making a big change. You need to consider the logistics that come with that, though. While it may feel more comfortable, it could be costly. It could, you know, if you don't have family nearby, you need to make sure that you have that foundation of support that can help you during that process. So, you know, the option of aging at home is much more affordable and it feels more comfortable in the near term, but it can prove more emotionally taxing for you and your children, especially when they do live far away. So, if you need around-the-clock care, if you need to have someone come in to help with day-to-day tasks. Tasks that are easy now, like grocery shopping, cooking, doing laundry, cleaning, handling mail, that can be more difficult as you get older. So, you really need to consider what that's going to look like or what it could potentially look like in the future. There are some services that make it a little bit more affordable. They're called homemaker services, and they can assist with things like meal preparation, errands, housekeeping and just companionship.

But what you want to consider, if you do intend to age at home, is that support system. Do you have family friends that are close? What are your relationships with your neighbors like? How old are they right now? Right? If your friends and your neighbors are all similar age to you, aging in place with that support system probably doesn't make sense. And so it can be, you know, lonely if you don't have people to keep you happy when you're around. So, it's important to realize who you would be, depending on if you're aging at home and not wanting to put undue stress on family and friends. It may make sense to do something that might be a little bit more costly but can help you and your family in the long run.

Lindsay Theodore: Yeah. Yeah. No, so true. My husband is down in Florida right now as we speak, helping his older brother, clean up the house. His mother's, their mother's house to sell, you know, because they finally convinced her. "Mom, you're answering the door for strangers. You know, your friends, your community of neighbors, they're all getting older, too, and they're not checking on you as much." And she lives three hours away from the nearest from her oldest son. And it just got to a point where we were worried about her, and she was worried about her. And she finally realized, like that trade off of being comfortable and being in the home that she's lived in for 25 years, she was no longer getting the comfort of that. It was more like fear about opening the door. And so, you know now she's so happy. So, my husband's been visiting her every day this week. She is very happy. They walk through the garden and like her, you know her. Her unit is beautiful. So, it's just, again, you know, in the near term, people don't want to make a change, especially folks who are kind of set in their ways. But it's good to start having those conversations earlier because as needs arise, you know, then it's going to be easier to say, "maybe it's time," right? But if you don't even talk about it until someone's suffering in silence and the needs are really bad, then it's going to be a difficult, you know, uphill climb, uphill battle. Right?

Molly Burton: Yeah. And you know, when you have you were kind of talking about earlier, extreme views right, about "I'm never going to need long term care. I'm never going to need a plan. Nothing's going to happen to me. I'm going to be I'm going to age peacefully and..."

Lindsay Theodore: "Pass away in my sleep." That's a common one. Yeah.

Molly Burton: Or it's, you know, "I have enough money and everything's going to be fine. I'll be able to figure it out when the time comes around." But like you said, with his mom in that situation, you know, she realizes that that's what she had intentionally planned for, what she had intended, is not going to work out for her. And that's okay. Plans change like we expect plans to be fluid and be able to be changed. But knowing what your options are I think are really, is really important.

Lindsay Theodore: Sure. Yeah. Definitely.

Kim Zook: Well it sounds like this, this concept of aging in place, that can evolve, right, to what your husband is going through it.

Lindsay Theodore: Right.

Kim Zook: And it sounds like when most people do have that option depend on people that they know to help take care of them, that is certainly a path forward. I want to hear your thoughts more about the importance of having companionship. You spoke about loneliness, but can you talk a little bit about the importance of having companionship?

Lindsay Theodore: And I'm not a psychologist, but I have read many places that one of the keys to kind of maintaining whatever your current physical and mental capacity is, like being at your full strength, ongoing social interaction is key to that, right? So, if you have most of your family members are not nearby and your friends are older and not able to drive over to you and stuff, you know it can be quite lonely.

So, there are options like, Molly had mentioned, you know, the homemaker services, which are great for completing tasks. They also provide some companionship as well. But there are, there are community senior centers and adult daycare centers, which have really grown in popularity and in number because, you know, the population is aging every day and there's more and more need for them, but they can provide a great outlet for seniors to engage with other people their age, have some fun, have some social interaction, make some friends, and they can also provide a respite for, you know, family members who are taking who have agreed to take care of you. Maybe they're still working, maybe they just want to get to the gym and the grocery store, and they need a respite. So adult daycare centers and services like that, because it doesn't have to be that you go somewhere they might come to you or pick you up. Those services can help to provide your caregivers with a respite, you know?

And a geriatric care manager is a great resource as well. Again, if your loved one or you, plan to age at home or one to make your best effort to do that, a geriatric care manager can help kind of come up with a care plan, line up services like homemaker services, like adult daycare centers, community centers, and home health aides or home health care. It's called both. But these are typically agencies that send someone to help you out with custodial needs, like activities of daily living. You know, cooking, going the bathroom, things like that, the activities of daily living that just get tougher as you get older, or if you need medical care, home health care, home health aides can do that for you. So, they can help you line up the services and find them in your community, which is a great resource, especially for family members who don't know where to start.

Kim Zook: And how do those compare in terms of costs?

Lindsay Theodore: Yeah, it's a wide range. Genworth, they do a cost of care survey every year and that's a very helpful resource to see how much each of these services are median nationwide, and you can even look at your geographical region. I think it gets down to state and county and it can get very specific. Now they can only give you the data that they have. So, if you happen to live in a rural area that doesn't have a lot of services, they might not have

enough information that it would be statistically like helpful to give you a median. But for most places that have large enough populations, they'll give you a median cost for various services.

Kim Zook: What's great about that is it's an actionable item that our audience can look up and search out.

Lindsay Theodore: Sure. Of course.

Kim Zook: I'd love to switch gears. We've covered a lot of ground and really important different ideas or concepts about aging. Now our audience, how can we give them, what questions they should be discussing with their loved ones? Molly?

Molly Burton: So, you may want to consider discussing how they would prefer to age and where. Is their home is currently suited for an older you, and what modifications might be necessary? Do you need handrails in the bathroom, in the shower? Maybe the electric thing that goes up the stairs like in the movie Up?

Lindsay Theodore: Or an elevator, that's more common I think than the stair thing.

Molly Burton: Or an elevator. You could definitely do an elevator. You know, who's going to assist with daily tasks if you need help? Is this going to be a family member, or do you want to hire help to be in the home? Have you organized your belongings to make things easier for you and your family? So, things like creating an estate plan, understanding who you want your assets to be left to. And we're not just talking financial assets, we're also talking physical assets. So maybe you have a collection of stamps or coins, or maybe you have a nice flashy car that you, you know, shined up and, you know, built with your grandson, you want to leave it to your grandson. Have you thought through these things? To figure out how your assets are going to be passed and to whom. And then if and when your health declines, what are your options for support? Could you move in with a child of yours that may be an adult? Maybe they can come in and move in with you. And then how do you plan to communicate with your loved ones about your physical and mental capacity along the way? Because the last thing you want to do is really suffer in silence until a crisis occurs.

Lindsay Theodore: Totally.

Molly Burton: It's really important to have an open dialog with your family members now about how you're feeling and about, you know, what could potentially happen if something happens in the future.

Lindsay Theodore: Yeah.

Molly Burton: And I think a really great option, or opportunity, is to visit a community while you're healthy and see what types of communities or what types of locations you prefer.

In my research, visiting these, now, this was over ten years ago, but there's a lot of, you know, they had a lot of events going on, and they do field trips and there's a pottery class and gardening and, you know, some of these places can be beautiful. Now, obviously there's a cost that comes with all of that, but it's really important to understand that there can be waitlists for these places. So, consider to go while you're healthy, see what you like. And because it's a difficult subject, have these conversations early on while you are healthy, while you're a sound of mind. Again, don't bury your head in the sand and don't wait for a crisis to occur, really have these conversations now because anyone that you're to be trending on for support then will be supporting you now.

Lindsay Theodore: Yeah. No, it's really true. And the home modifications piece, like that's something definitely you want to think about addressing. If you're, if your intention or the loved one you're helping to think through this stuff with, if their intention is to try and age at home and they have a two-story home and no full bathroom on the bottom floor, like you have to start pricing out those modifications. They can be really expensive. And do they have the money to pay for them? How soon can you get them done if they don't have the money, how are you and your siblings going to work out how to pay for those? And if you have a list of all the things that they're going to leave to you upon their passing, maybe you've all agreed on who's getting the baseball card collection and who's getting the car, then maybe there's less to fight over, and you guys can just come up with what tasks everyone needs to do and what everyone's going to chip in as far as taking care of the parents. So, I know I'm kind of interchangeably talking to both the person who should make some decisions for themselves before they need to, and the children, but I think that nowadays, like we have so many people who are sandwiched between finishing raising their own kids, like, Kim, you have someone in college, a daughter in college.

Kim Zook: That's right, that's right.

Lindsay Theodore: And you have parents who are aging like a lot of us are in that situation. So, the more you can have those conversations ahead of time so that you're not pulling your hair out by both your teenage daughter and your parents, the better, you know.

Kim Zook: Right! And I think what's really important for our audience is you both emphasize having a conversation when things are healthy and good.

Lindsay Theodore: Totally.

Kim Zook: And I think this episode is about starting that conversation. So, thanks for the actionable takeaways and points. So, I want to pivot a little bit and talk about relocation. So, what about those who are comfortable relocating in retirement. What are their options?

Lindsay Theodore: Yes, absolutely. So, and again, I think a big driver for the people who proactively look for this is that they don't want to be a burden on their children. Like that is a really big thing for them. So, I had these really dear clients, for many, many years who told me, they the first time I met them, they said, "hey, look, we've identified this, continuing care

retirement community that we really want to move to and we're so excited. We know what floor plan we want and everything. But the deal is we're going to owe this much for the entrance fee. And we have most of our money in pretax assets, so we need to come up with a plan to raise that money." And they were awesome because they just knew we this is how much it's going to be, like we ran all their numbers. They could afford it. But they needed to free up the cash and manage with taxes. And so. Anyway, I digress, but the point is, I really admired them because their whole goal was yes, to take care of themselves and they were excited for the lifestyle they get to enjoy it, but they were also just like, this is going to be such a weight off of our children, you know?

So anyway, so that's what drives a lot of people who do decide to proactively move, right? They don't want to be a burden and plus, they'll feel better knowing that, like, services they need are available if their health declines. So, you have CCRCs, which Molly and I have talked about. Those ones, again, typically have an entrance fee and a monthly cost.

Then you have assisted living communities, which are similar to CCRCs. The difference is that assisted living might not cover quite as many like services, advanced medical services, as a CCRC can offer on site. But you have to kind of ask what services they will cover, because the place where my grandfather is now, it's called an assisted living facility but they have memory care, they have skilled nursing care. I mean, if he had really, if he was more physically having issues, he might have to go to a more hospital-like atmosphere. But the assisted living place, he's in basic is like similar to a nursing home or CCRC in the services they offer. So again, these terms get thrown around. A lot of it depends on your geographical location to. You know, assisted living and supported living might have different definitions like in Florida versus here in Maryland. So just important to know the definitions and ask the question of, "I'm paying these monthly costs," again assisted living communities don't typically have a very high entrance fee, they have a discharge fee that's relatively minimal compared to the entrance fee of a CCRC, but they also cover services with a monthly cost. So, you just want to make sure you ask what services do you cover as far as medical and, memory, health, custodial.

Kim Zook: That's such a good tip for our listeners to make sure they're asking the right, smart, better question.

Lindsay Theodore: Sure. Yep.

Kim Zook: Awesome. Molly, anything for you to add?

Molly Burton: Well, I would add one thing about CCRCs and assisted living communities, about the pricing. So, like Lindsay mentioned, there is typically an entrance fee with the CCRC and a monthly fee. And then with those assisted living community, you typically just see that monthly fee. Now during my research, I found that most CCRC communities that monthly fee will not increase no matter what level of care you go into. Did you find that too, Lindsay?

Lindsay Theodore: I found that you can choose your own adventure.

Molly Burton: Okay.

Lindsay Theodore: in a sense. Most people who go to a CCRC, they choose the one that's expensive, most expensive, like the monthly costs, but it's like the "A contract" where it's like...

Molly Burton: Yes.

Lindsay Theodore: but it's going to cover all their future. It's like prepaying in the medical care you might need in the future.

Molly Burton: Yes.

Lindsay Theodore: So, while you're healthy, it seems very high, but there's going to be very little change in what you have to pay every month from here until, you know 95, whether you need memory care or, you know, 24/7 nursing care or whatever. So, the people who choose to go to those places, I think, do opt for contract A.

Molly Burton: A Contract A.

Lindsay Theodore: Yeah. Now, if you if you don't want to pay as much for upfront costs, because let's say you have longevity in your family, but your husband, you know, no one lives past 75, you know, then maybe you choose a B contract and that's where you prepay some of the medical expenses. So, it's less but and they could go up if you need those services. But you're just kind of making an estimate for what you think you need to prepay for the future. But I think you're right. You know, you can choose your own adventure. You can choose how variable you want that monthly cost to be. If you want to know exactly what it is every month and you have the income and the assets to support that, people often do choose A, right, because it's very, it's predictable. Right? No matter what kind of care you need in the future. But, and that's a nice thing about it. But, you know, assisted living communities there aren't those types of contracts to my knowledge so, it really just depends on the services offered. And then you have to ask those communities "okay, so, this is the starting cost per month. What happens if I do need memory care? How much does it go up?" And again, these costs are going to change year to year because inflation, historically, has been higher for health care. It's been pretty high for long term care as well. Although home health care is increasing year over year at a much faster rate than assisted living or CCRCs from Genworth's most recent data.

Molly Burton: Yeah, contract A is so important and I think people understanding that there might be sticker shock, and you might hear friends or family that might be in a CCRC community with contract A, and the pricing can seem super astronomical, but it's because they're essentially prepaying for...

Lindsay Theodore: ...anything they need in the future.

Molly Burton: And the price wouldn't go up in that case.

Kim Zook: So, it's in a sense, if I hear you, you're talking about the fact that they can invest for their future by prepaying.

Lindsay Theodore: Yep.

Kim Zook: But I didn't even realize there were these options. I had never heard of contract A or B until this moment..

Lindsay Theodore: Yeah. So, and C is where you kind of pay as you go.

Kim Zook: So, so there's a third, there's a third option?

Lindsay Theodore: That's the one where it's the lowest. And you understand it could be variable, and it could go up quite a bit if you're if you're needs, you know, change. But again, you have that option. It just depends on how predictable you want that monthly cost to be. Right? And then I think you know, it's important to remember it's not just the prepaid medical expenses that the monthly cost covers, in an assisted living community or a CCRC, it covers a lot, right Molly. Like what else is it...?

Molly Burton: Yeah. So, it can cover things like meals amenities. So that's your gym pool. You might have a community center library. You could have a shuttle service that takes you to doctor's appointments and, maybe, to the theater or a concert venue. There you have entertainment that is included in costs. Building maintenance, landscaping and it can also cover services like laundry and house cleaning. So many of my clients have found that these places are attractive because there are activities available to do, people to hang out with nurses, health aides to check in on you, and the meals are prepared for you. So, it's kind of like going back to college. Family members love knowing that if there is care that is needed, it can be provided on site.

Lindsay Theodore: Yep. No, I totally agree with that. And since my grandfather relocated, he's so much happier. We thought if he went to an assisted living facility that he'd be in his room all the time and sulking because he definitely fought us on it. He wanted to stay at home and independent for as long as possible, but we just knew "this is not safe for you and we worry about you 24/7." So we found him a great community. He is very happy. He spends most of his time out of his room in the common areas. And mostly he's not hanging out with other residents, he's hanging out with like the staff he loves cutting it up with them, but it doesn't matter. He's getting social interaction. He's getting attention. And we knew for him that a place like with eight other patients, was better. So, it's a big mansion that's been retrofitted to, you know, accommodate older adults. And it's run by a team of home health aides and techs and doctors on call and stuff. But so, it's a smaller residence and there's a lot of choice there. But he is a lot happier. And, you know, my mom is an only child. That's her Dad. And being an only child with an aging parent who's 91 and very stubborn, it's tough. So ever since he's been there, she

feels such a weight lifted, you know, because she knows someone's going to check on him and make him take his medication.

Kim Zook: Sure, she can sleep better at night knowing he's safe.

Lindsay Theodore: Totally.

Kim: And monitored.

Lindsay Theodore: Totally. So, like he'll still give her a hard time. Well, that's just what he does.

Kim Zook: Well I hope so.

(ALL LAUGH)

Kim Zook: Molly, is there any other advice you would give about the shopping? I know you referenced it earlier about shopping communities in advance of the move. Is there anything about saving or any steps they should be taking?

Molly Burton: Yeah, I mean it's just important to start shopping those communities if you are intending to relocate, you want to be, you know, get yourself excited for that lifestyle that you're going to enjoy in the next chapter. Allow yourself to take the necessary steps to prepare financially. So that's accumulating cash for the entrance fee. Maybe you need to sell your home to be able to pay for that entrance fee if you are going into something like that CCRC community. Maybe you're staggering sales from your IRA, things like that.

Lindsay Theodore: Mhm. Like my clients did.

Molly Burton: Yes.

Kim Zook: Yeah. It's great for us to learn from you and your clients' experiences, so that we can all be asking these questions. So, in a sense, if the essence is establishing your personal preferences about your preferred plan for aging, it sounds like that can really help drive and inform the financial preparation. What are some other factors one should consider when it comes to planning for the financial side of the equation?

Lindsay Theodore: Yep. No, that's a great question, Kim. So yeah, again, narrowing down the housing and kind of personal lifestyle preferences is key because you can go on to Genworth or you can look in your area and you can see, "okay, if I need home health care, this is about what it would cost if I needed eight hours a day, five days a week. If I want to move to assisted living. This is what I should budget for in terms of the monthly cost." Knowing the housing preferences can start you off with the right, starting point.

Most long-term care hours that are provided, like caregiving hours that are provided in America, are provided informally. In other words, free, unpaid by loved ones. 65% is what the center for Retirement Research at Boston College estimates is actually just provided by informal caregivers, people who chose, or did not choose, to do the care. So that's kind of heartbreaking to me, because it just means there's a lot of caregivers who have caregiver fatigue, probably, you know, that's a big that's a big sacrifice. But in any case, the people who do the hours that are paid, Medicaid will cover it, but again, the asset and income thresholds to qualify for Medicaid are notoriously low. So, a lot of people won't qualify for it. Right? And then Medicare does not cover long term care. That's a really common misconception. People shouldn't count on Medicare to cover long term care. They will cover post-surgical care, if you have surgery and you need to be watched or rehabbed for a little bit, they might cover a limited amount of time of that. They will cover hospice care, which is not long-term care. But again, they don't cover long term care. That's the bottom line.

So, if you have a 6 or 7 figure balance in your savings and you have some good income, like you probably need to plan on paying for it yourself. So that's where I'm going to get back to having an idea of where you want to live, how you want to live, having those conversations with your family and your advisor to understand what you can afford, right? Is important. Then, the way we look at it is you should then be looking at like, what do people actually spend out of pocket when they're older in those final two years of life, what are people spending who actually do have to self-fund, meaning use their income and assets to pay for their care. And that can help you kind of figure out, "okay, between my housing preferences and what other people spend, this is a good kind of annual cost I should plan on." Right?

And then, the last thing is kind of your personal risk tolerance and your health, and your family medical history, can then inform, like, maybe how many years you should plan on funding for long term care. So, if you are the kind of person who drives like ten miles under the speed limit like me and does not gamble when they go to Vegas, like maybe you're just more averse to risk , so you would want to plan on more years of care than less, right? Or if you have a family history of longevity, of needing long-term care, support like that can be an indicator that maybe you might need it. So those personal facets can help you determine like how many years to plan on.

Molly Burton: Those are some good considerations for coming up with an estimate. And our colleague, Sudipto Banerjee, he examined data from the Social Security Administration-sponsored health and retirement study, called the HRS, and made some really interesting observations. So, he found that actual out-of-pocket expenses incurred by most people in the final two years of life. So, this is on services for in-home care, adult daycare, nursing home stays. He found that these expenses incurred in the last two years of life are less severe than many people fear. Among the population with the highest out of pocket expenses, those age 90 and older, 50% spent less than \$2,600 per year. I'm going to repeat that. For those aged 90 and older, with out-of-pocket expenses, 50% of them spent less than \$2,600 a year and only 5% spent more than \$84,900 per year in the final two years of life, not including health care premiums. So again, going back to people having these thoughts of extremes that it's going to

be extremely expensive, out-of-pocket costs at really looking at this study, it's that's really not true.

Lindsay Theodore: Yeah. I mean, he definitely did conclude that it's not as scary as people fear. But one caveat is so, he did exclude from his analysis people who are already on Medicaid. So, when you study like the expenses in the final two years of life, he didn't cover people who are on Medicaid just because they're not paying out of pocket. You know? Either anymore or just they're not paying out of pocket. So that's one important thing. But I think that it should give people who are high net worth or have a good amount of savings, who are worried that it's going to bankrupt them. You know, those people like them with the 5- or 6-digit, you know, balance in savings don't qualify for Medicaid either.

So, people like them were included in this analysis. And what Sudipto found was that 95% spent, you know, less than 85,000 a year in the final two years of life. Now, that doesn't it mean that they only spent that in two years. Maybe their condition had lasted five years or ten years, God forbid. But, you know, at the end of the day, it was less, than I think many people fear because we all think of like the catastrophic \$150,000 a year for like 20 years and it's like, not as realistic as maybe we might think. But another thing he points out too that I think our listeners should understand is averages. When you look at this stuff online, it'll show like average time in a nursing home, average time or dollar spent out of pocket. And averages, unfortunately, are really skewed by a couple of really high and really long long-term care needs, long-term care events, which is why Sudipto helps to kind of center the data on percentiles instead of averages because averages can really be skewed by the very few.

Kim Zook: So, you're saying there could be just one outlier that's driving it.

Lindsay Theodore: Or 20.

Kim Zook: Or 20.

Lindsay Theodore: But if they spend enough and they, you know, it's enough years, they can really drive up the average. So that's why the percentiles are helpful. You understand the distribution of people and what they spend.

Kim Zook: But what's helpful about that is that's a fact. And it's and it's asking these questions, and we always hear about that one exception right? And then we are afraid.

Lindsay Theodore: And then we're like, "it's probably going to be me. I'm the exception."

Kim Zook: But the research is saying, when you look at percentiles and not averages, there can be more comfort and relief knowing that's improbable.

Lindsay Theodore: Right. Right now, I wouldn't say plan on like the \$2600 like the 50%.

Kim Zook: Right, okay. That's fair.

Lindsay Theodore: And that's, like, you know just because that's not prudent like plan for a worst-case scenario. But the worst-case scenario doesn't have to be like planning on \$200,000 a year. You don't have to like annihilate your plan and live like you're a penniless person in retirement because you're scared about something that might not happen in the future. Right? So, this is all about coming up with what would make you feel better planning for it in terms of the dollars per year that you want to plan on funding, just in case, and how many years of care do you want to plan on funding? Once you've identified that, what do you do with that information? How do you plan for it? We don't have time for that today, obviously. But at least it can give you an idea. And again, if you knew if we all knew how much care we need, well, that'd be very easy to plan for.

Molly Burton: I think another key point that might make our listeners feel a little bit more comfortable is that 70% of final long-term care facility stays, for people of all ages, have lasted less than three months. So it's a lot...

Lindsay Theodore: It's just people in this study.

Molly Burton: People in this study.

Lindsay Theodore: Yeah, again not the ones excluded because they're on Medicaid.

Molly Burton: Right, yeah. So, in this study, they found that more than 70% of final long term care facility stays lasted less than three months. So yeah, it is a lot less terrifying, a lot less scary than most people fear. And it accounts for the last two years of life and the length of final nursing home stays.

Lindsay Theodore: Yeah.

Molly Burton: So yeah, that's where they, that's where they end.

Lindsay Theodore: So that's final. So, someone though, you guys probably know from your experience with family members, I mean, they might go into a facility that provides long term care support and then come back.

Molly Burton: And come back out. Yeah, right.

Lindsay Theodore: So, this is just the final ones but I still think it's kind of reassuring to know that 70% of them were less than three months, and only 1 in 10 was more than a year.

Kim Zook: Yep.

Lindsay Theodore: So 10% or more than a year, you know? But again this is all just to give people some comfort like planning for a reasonable conservative dollar amount of care in the future. And again you don't know when you're going to need it, but you know you might. Having that kind of dollar amount in mind, and again this is based on home health care, whether you think want home health care, whether you also have some family members who want to help take care of you and fill in some of those gaps for free, like it's about coordinating all those things to come up with some type of estimate so that you can then plan for it.

Molly Burton: And if you do plan on relocating from your home, going to a CCRC, moving in with an adult child, you can budget for those lower additional out-of-pocket expenses. And then if you plan on receiving full time care at home, you might need to budget more. Again, it's just it's coming up with a conservative estimate we'd rather over plan than under plan.

Lindsay Theodore: Exactly. Yeah.

Kim Zook: Super helpful. Thank you. Molly. So now, Lindsay, what are some of the planning steps individuals can take in light of the personal and financial aspects?

Lindsay Theodore: So once you've identified that annual amount and the length of care you feel comfortable assuming, then you can work with an advisor, financial professional, a certified financial planner professional, like Molly and I to build in those costs in today's dollars into your plan. And it can project it out based on an inflation rate that you can discuss is reasonable with your advisor. And they can do an analysis to determine, you know, based on your income, your savings balances, other spending that you're going to need to, keep up with in the early years of retirement. And later on, they can, you know, be able to tell you maybe if even with several years of long-term care built in at the end to plan whether you're going to be successful and you won't run out of money. And that can be very good to hear.

Kim Zook: Yeah, a lot of peace of mind it.

Lindsay Theodore: Yes, exactly. And it might give you more freedom to actually spend your own money in the early years of retirement, when you're still healthy, because I know we're not talking about that today, but that's what most of us plan for in retirement is those early years, right? So and then then the question becomes, you know, for those people who do have a successful plan, even with long term care built in and assumed, then you might consider purchasing insurance, long term care insurance, or a hybrid policy, which is a hybrid blend of permanent life insurance and long-term care benefits. And those policies can, you know, help to protect a portion of your income and assets if you need long term care. But a lot of those policies no longer offer unlimited payouts, so they won't cover you forever. It'll be like a set term or a specific dollar amount. And they're complicated, so you just want to understand what they are. But it can provide a lot of peace of mind if you can afford it. You know, it might be worth looking into.

Kim Zook: Wow. So I had never heard of a hybrid long term care policy and that you could, I didn't realize you could have life insurance built into that. So, Molly, can you tell me more about how to protect your assets? Because I literally thought long term care was like term insurance. And I'm not sure if our audience all knew that you could also help protect those assets.

Molly Burton: So Kim, one of the biggest differences between your typical long term care insurance policy and a hybrid long term care insurance policy with life insurance really is that your typical your traditional long term care insurance policy, you could pay into it for many years and not use any of it and then that benefit is lost.

Kim Zook: Oh, okay.

Molly Burton: However, with the hybrid policy, you could use none of it, or you could use part of it for the long-term care portion. And then there's a portion that would be paid out, to your beneficiaries. So it's not a use it or lose it policy, like your traditional long term care insurance policy is.

Lindsay Theodore: Yeah, lose that money.

Kim Zook: That's super helpful. So thanks for explaining the differences. I think the flexibility it sounds like it offers...

Lindsay Theodore: Absolutely.

Kim Zook: ..Is terrific. And like you said, understanding the key attributes and selecting a policy.

Molly Burton: Yeah, I mean, I think whenever you're reviewing any insurance policy, you want to know the rating, the reputation of the company that you're considering. Now, if you decide to self-fund, you want to make sure that you map out a spending plan which includes reasonable reductions at various phases in retirement. You want to make sure that you identify that reserve goal and then make sure that your retirement savings, your spending plan, is not going to depend on those funds for ongoing income.

Lindsay Theodore: To piggyback on what Molly was saying about the self-funding. So three key things, like if you decide "insurance isn't for me, I don't like it. I think the insurance company always makes out better than I do." Whatever. That maybe that's your personal opinion and you research it and you decide not to go that route. if you've saved adequately and you're spending is in check as is, then, and it's likely you're spending is going to change over time. I mean, Sudipto, in his research on retirement spending, found that on average, retirees drop their spending by 2% each year.

Kim Zook: That's right.

Lindsay Theodore: You know, they don't increase it. So but we plan as if you're going to spend the same amount in all of retirement with inflation forever. And so like that's the first thing that can create some room, you know, to afford long term care is that you're going to not travel as much at some point. You're going to not buy as much groceries at some point you're going to not care about clothes. So anyway, so kind of map out how those reductions might happen. And then when Molly mentioned the long-term care reserve again, typically for most expenses that are ongoing, we assume that they're going to keep going with inflation every year. But for long term care, since it's really big and really short, it might be fair to set aside that money in reserve. Essentially, you're looking at what does the present value of dollars needs to be to fund future long-term care. It's just a mathematical equation. And then you set that apart based on your, based on the estimates you've made and what we've talked about today.

Kim Zook: Wow. We've covered a lot of ground. Well, it's hard to believe, but it's time for us to start wrapping up the discussion. Let's leave our listeners with some parting thoughts or next steps. Let's start with you, Lindsay.

Lindsay Theodore: So I will acknowledge that planning for older age and retirement in general is complex. And it's and it's highly personal. It also involves accounting for a great deal of uncertainty, which is always difficult, humans crave certainty. I am human. But alas, the future is impossible to predict. And if it were like Molly and I were talking about, if it were 100% possible to predict, you know, financial planners, accountants and lots of people wouldn't have a job. Anyway. But the answer is, again, not to ignore the fact that you will get old, but to have a plan in place for it and like I think we've talked about, if you can plan for the future and know where you're going to live and who's going to help you, and what it would take for you to make that next step and can you afford it? If you've thought through all those difficult questions for the second half of retirement, you're probably going to be less apprehensive to spend your own money on that trip to Brazil or to Argentina or that Viking cruise or spoiling the grandkids, like you're just going to enjoy the healthy years of retirement more fully because you've actually planned for and didn't just put your head in the sand about like your older age.

Kim Zook: That's super, super insightful. And I think to your point, once you have that plan, you can move to the fun stuff.

Lindsay Theodore: Right.

Kim Zook: It's clear the knowledge that you all are sharing in that takeaway that you're passionate about it and I appreciate you sharing that expertise with our audience. What about you, Molly?

Molly Burton: So my guess is that many people listening to this podcast today haven't retired yet. So the thought and the planning for older age is probably completely foreign and distant, but you likely have a parent or grandparent or a friend's parent who is approaching the situation in this phase. And so it's really important to help them navigate these choices. Encourage them to put a plan in place, for you, for other family members. You don't want to be scrambling to get

support that they need, if a crisis does arise. And like Lindsay says, this season of life is likely filled with a lot of uncertainty and discomfort. So if you can help them face it with courage, positivity, proactive choices, it can make a huge difference. And the last thing I'll say is don't leave all the long-term care worries to the ladies. Caregiving responsibilities should be shouldered by all.

Lindsay Theodore: That's true.

Kim Zook: That's such a great point. And it's wonderful takeaways and information for our audience. Thank you so much, Lindsay and Molly. You've given me a lot of tips to help as my family navigates the next steps in the journey of long-term care and planning, especially, as you both mentioned, having a plan and then making sure we do those things and ask those questions while everyone is, well, and mobile.

Lindsay Theodore: Yeah.

Kim Zook: So thank you so much.

Lindsay Theodore/Molly Burton: Thank you.

Kim Zook: Planning for the second half of retirement can seem daunting, but with the right information and a proactive approach, you can make informed decisions that will help ensure a comfortable and financially secure future.

Again, I'm Kim Zook, thank you for listening. Please tune in to our next episode, which focuses on inflation and market volatility. And if you like this podcast, please rate us and subscribe wherever you get your podcasts. And remember that a confident retirement starts with asking the right questions.

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