Income Portfolios: Planning for Longevity and Health Care Costs

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Vice President, Research and Outreach
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Discussion Themes

- Impact of longevity on health care costs
- Impact of health status on income needs
- Income portfolio approaches
- Average returns vs. real-world returns (behavioral factors)
- Retirement, health care and bad timing
- Implications for retirement product application and development
Key Metrics

- **U.S. Life Expectancy**
  - Birth: Male 77, Female 82
  - At age 65: 50% of males age 87, 50% of females age 89
  - Age 65 couple: 50% chance one reaches 93, 25% chance one reaches 95

- **Health Expectancy**
  - Average 65 year old will live to 84.1
  - Average 65 year old will be healthy until age 78.9

- **Average Returns versus Investor Returns**
  - Systematic Withdrawal Plan (SWiP) illustrations often assume a 7% or 8% blended rate of return
  - Balanced portfolio annualized INVESTOR return from 1984 to 2013 was...1.9%

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1World Health Organization, Society of Actuaries 2012 Individual Annuitant Mortality Tables
2Center for Disease Control and Prevention, "Health, United States, 2013"

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Health Care and Income

**TOTAL EXPECTED HEALTH CARE COSTS IN RETIREMENT BY HEALTH STATUS**

Source: HealthView Services, Inc.
Health Care and Income

- Healthy versus Unhealthy
- Subjective, no bright line
- Common health barometers permit comparison at extremes
- Good planning requires determining where one is on the spectrum

<table>
<thead>
<tr>
<th>Health Metrics</th>
<th>Excellent Health</th>
<th>Poor Health</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blood pressure</td>
<td>Normal</td>
<td>High</td>
</tr>
<tr>
<td>Cholesterol</td>
<td>Normal</td>
<td>High</td>
</tr>
<tr>
<td>Last full physical</td>
<td>Within past 12 months</td>
<td>More than 12 months ago</td>
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<tr>
<td>Exercise</td>
<td>2 or more hours per week</td>
<td>Less than 2 hours per week</td>
</tr>
<tr>
<td>Diet</td>
<td>Healthy, well balanced</td>
<td>Poor</td>
</tr>
<tr>
<td>Tobacco use</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Family history of diabetes or cardiovascular disease</td>
<td>No</td>
<td>Yes</td>
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</tbody>
</table>

Source: HealthView Services, Inc.
Health Care and Income

Comparing a DI/SWIP Plan to SWIP Only – Male, Excellent Health:

<table>
<thead>
<tr>
<th>Age</th>
<th>Base Need</th>
<th>Health Care</th>
<th>Total Need</th>
<th>Social Security</th>
<th>Shortfall</th>
<th>Annuity Purchase</th>
<th>Annuity Income</th>
<th>SWIP</th>
<th>Portfolio Balance w/ Annuity</th>
<th>Portfolio Balance (SWIP only)</th>
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<tr>
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<tr>
<td>85</td>
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<td>14,527</td>
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Sources: Insured Retirement Institute and HealthView Services, Inc.

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Health Care and Income

Sequence of Returns Risk

Source: Insured Retirement Institute
Concluding Thoughts

- The Great Balancing Act
  - Income needs, health status, investable assets
  - Guaranteed income, liquidity/flexibility, opportunity cost

- Product Mix
  - Most people with investable assets will benefit from some level of guaranteed lifetime income – sometimes rather intangibly
  - The trick is finding the balance

- Product Development
  - Flexible income payments tied to medical expenses
  - Medigap/SPIA/DIA combination solutions

Health Care and Income

Questions or Comments?

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