

## Planning Strategies ▼

# Solving the Retirement Income Equation with Life Insurance

*Don't look now, but many haven't even started saving*



### by Rod Rishel

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Perhaps it will come as a shock to younger brokers: Legions of Americans haven't even begun to prepare for their retirement income needs.

In fact, as the 2015 Retirement Confidence Survey from the Employee Benefit Research Institute (EBRI) and Greenwald & Associates shared, "Despite approaching retirement age, almost half of workers age 45 and older have not yet tried to calculate how much money they will need to have saved so that they can live comfortably in retirement." That's scary!

But while impediments to retirement readiness exist and the fear of outliving retirement income remains valid, innovations in life insurance product development may help some consumers solve the retirement income equation. Let's explore the need as well as the potential solution.

#### Lack of Savings

As a recent report by the Board of Governors of the Federal Reserve System explained, the long-term shift from defined-benefit plans, such as pension plans, to defined-contribution plans, such as 401(k) accounts, places significant responsibilities on individuals to plan for their own retirement, yet, "many respondents are not saving for retirement, lack confidence in their ability to invest their retirement savings, or appear ill-informed about their retirement accounts."

Furthermore, the report shares that among non-retired survey respondents with a six-figure income, a mere 13 percent reported

having given financial planning for retirement "a lot" of thought. It's probably accurate to surmise that their thoughts weren't optimistic, considering the findings of another recent poll - this one by MONEY magazine.

#### Great Insecurity

The MONEY survey found that roughly half of Americans with six-figure incomes are worried about their family's financial security. As an article recapping the poll results noted, "Most Americans believe that the Great Recession is over...But a Great Insecurity seems to have emerged in its wake." Nearly 75 percent of the survey respondents expressed concern that their money wouldn't last through retirement.

Americans have no shortage of reasons to worry. In a U.S. News & World Report article, David Ning shared seven challenges that can sting retirement nest eggs, including the need for extended long-term care, financial assistance for parents, monetary help for children, unexpected travel plans (such as for a grandchild's wedding or a best friend's 50th anniversary celebration), inflation, expenses to move to a warmer climate or nearer to offspring, and potential changes in the tax code and entitlement programs.

#### Long-term Care Costs

Consider the financial impacts of long-term care alone. A person turning age 65 today has almost a 70 percent chance of needing some type of long-term care in his or her remaining years and according to AARP, the cost for a private room in a nursing home has soared to more than \$91,000 annually.

Let's do the math: Given that the average length of stay in long-term care is 3.7 years for a female, some Americans may be facing more than \$336,700 in unanticipated nursing home costs. Even for consumers who have saved and invested, financial impacts of that magnitude have the potential to drain retirement accounts and income.

What are clients to do, especially if they view long-term care insur-

ance (LTCi) as impractical due to steep premiums, restrictions on types of expenses that benefits can cover, and the typical need to incur costs first and fork over receipts?

### Life Insurance Solutions

As part of an overall balanced approach to retirement planning, some clients may want to consider a permanent life insurance product with an accompanying package of living benefit riders designed to address longevity and chronic illness.

Regarding longevity, how many clients would be relieved to learn that at age 85, they could gain access to a guaranteed stream of retirement income, which may be income-tax-free, from their life insurance solution – regardless of the cash surrender value within the policy?

**Despite approaching retirement age, almost half of workers age 45 and older have not yet tried to calculate how much money they will need to have saved so that they can live comfortably in retirement.**

Explain to clients at the start of the planning process that they should seek independent tax or legal advice when evaluating their own circumstances, but also explain how “life insurance you don’t have to die to use” is designed to work in the event of longevity.

If chronic illness rather than longevity threatens financial soundness, the type of life insurance solution described above allows access to an accelerated portion of the death benefit when the criteria of the chronic illness rider are met. The benefit can be used to help with just about any type of expense and may be able to help the client remain in his or her own home longer. For example, benefits may help offset the cost of a private caregiver, special medical equipment or furniture such as a lift chair or an adjustable bed, installation of a wheelchair ramp, etc. As chronic illness riders on life insurance typically pay on an indemnity basis after qualifying events, clients don’t have to worry about submitting receipts. And no LTCi license is needed to sell chronic illness riders on life insurance.

### The Bottom Line

Threats to retirement income will likely always exist, whether from chronic illness, longevity, lack of adequate consumer planning and saving, instability in the financial markets, or other causes. Brokers must continue to respond with smartly designed products that offer value, flexibility and guarantees, and remain committed to educating clients about them. Are you fully conversant on innovative life insurance solutions? I hope so, because you’re absolutely key to helping consumers solve the retirement income equation. ❖

### Endnotes

1 “2015 RCS Fact Sheet #4,” *Employee Benefit Research Institute and Greenwald & Associates*, April 2015, accessed July 15, 2015 at [www.ebri.org/pdf/surveys/rcs/2015/RCS15.FS-4.Age.pdf](http://www.ebri.org/pdf/surveys/rcs/2015/RCS15.FS-4.Age.pdf)

2 “Report on the Economic Well-Being of U.S. Households in 2014,” *Board of Governors of the Federal Reserve System*, May 2015, accessed July 15, 2015 at [www.federalreserve.gov/econresdata/2014-report-economic-well-being-us-households-201505.pdf](http://www.federalreserve.gov/econresdata/2014-report-economic-well-being-us-households-201505.pdf)

3 *Ibid.*

4 Cybele Weisser and Kerri Anne Renzulli, “Americans Still Worried About Their Financial Future,” *Time, Inc.*, May 8, 2014, accessed July 15, 2015 at <http://time.com/money/833/americans-still-worried-about-their-financial-future>

5 David Ning, “7 Unexpected Retirement Expenses,” *U.S. News & World Report*, Jan. 16, 2013, accessed July 15, 2015 at <http://money.usnews.com/money/blogs/on-retirement/2013/01/16/7-unexpected-retirement-expenses>

6 “How Much Care Will You Need?” *U.S. Department of Health & Human Services*, accessed July 15, 2015 at <http://longtermcare.gov/the-basics/how-much-care-will-you-need>

7 “Seniors’ Independence Shouldn’t be a Political Game,” *AARP*, June 2015, updated July 15, 2015 at [www.aarp.org/politics-society/advocacy/info-2014/where-aarp-stands-older-americans-act](http://www.aarp.org/politics-society/advocacy/info-2014/where-aarp-stands-older-americans-act)

8 “How Much Care Will You Need?” *U.S. Department of Health & Human Services*, accessed July 15, 2015 at <http://longtermcare.gov/the-basics/how-much-care-will-you-need>

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