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On this week's *program*: Insuring a secure retirement with retirement experts Kim Lankford and Chris Blunt.

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CONSUELO MACK: This week on WEALTHTRACK, two retirement experts, Kim Lankford and Chris Blunt address the rising costs of retirement and how to conquer them. They are next on Consuelo Mack WEALTHTRACK.

Hello and welcome to this edition of WEALTHTRACK, I'm Consuelo Mack.
Inflation might be low statistically but in the real world of retirement, costs are going up. Every year since 2002 fidelity has estimated what the health care and medical expenses for a 65 year old couple will be through their retirement. They figure 20 years for the man, a life expectancy of 85, and 22 years for the woman to 87.

Are you sitting down? This year's projected health care cost number is $275,000 for that hypothetical 65 year old couple. That's a 6% increase over 2016 when the estimate was $260,000 and a more than 70% increase from their inaugural estimate of $160,000 in 2002. What about Medicare? Amazingly it is still expected to cover the bulk of your healthcare costs after retirement, but these are expenses in addition to what Medicare covers. They include monthly expenses for Medicare premiums, co-payments and deductibles, Part B for doctors' visits and outpatient care.

Medicare Part D prescription drug coverage, plus out-of-pocket drug costs. It does not include the cost of nursing home or long-term care. Even with Medicare, health care is one of the largest expenses retirees face. But what about all those other expenses: food, shelter, clothing, travel entertainment? The numbers add up quickly, which is why this week's guests have devoted a good part of their careers to helping people plan and manage their retirement.

Christopher Blunt is himself a recent retiree from being a full time executive, but he is active on several boards. In the non-profit sector he is Board Chair of the YMCA of Greater New York, the country's oldest and largest YMCA organization, Chair of Benefunder which connects high net worth donors to top university researchers and in the for profit sector a director of the principal funds. Formerly Blunt held several top positions at New York Life, including President of the Investments Group and Head of its Retirement Income Security Group.
Kimberly Lankford is an award winning personal finance journalist, Contributing Editor and Columnist for *Kiplinger's Personal Finance* magazine, an acknowledged expert on insurance. She also has expertise in military benefits for veterans, and is author of several books including: *The Insurance Maze: How to Save Money on Insurance and Still Get the Coverage You Need.*

Both guests agree that the first step toward a secure retirement is to see a financial planner.

CHRIS BLUNT: I think it's critical for a couple of reasons. The first is one, the space is complex. The vehicles can be complex. Retirement is a process; it's not about a singular product, it's really how those products work together. And then the other is just the behavioral coaching aspect. There's a reason the best athletes have coaches, and I think most of us, and frankly sometimes some of us in the financial space are the worst clients because you know a lot about the underlying vehicles, but you still need someone to provide that nudge, to provide some coaching, to provide some education and to keep up with all the changes.

CONSUELO MACK: What are the bases that one should … the essential points that one should touch on with a financial planner, Kim, in planning for your retirement?

KIM LANKFORD: Well, I think a lot of people think about their regular expenses in retirement. They think about their dreams too, about going on vacation, traveling, seeing grandkids. But a lot of times they overlook the healthcare costs and they think once they're 65 and on Medicare, everything is covered. But actually, you may have hundreds of thousands of dollars in out of pocket medical expenses, even after age 65.
Fidelity just did a study and this year, a couple that's retiring at age 65 this year will have $275,000 in out of pocket medical expenses throughout their retirement. And this is things in addition to Medicare. These are your Medicare premiums, filling in the gaps, prescription drug costs. And it doesn't count the potential costs of long-term care that can really, really add up.

CONSUELO MACK: Chris, I'm listening to this. I mean you're a retirement expert. $275,000 is just a huge nut for most couples to cover. I mean, how realistic is that that we can actually, most of us could cover that in retirement?

CHRIS BLUNT: Yeah, well, I think Kim hit it. One, it's a big part of why people need more retirement savings than they think they realize. It's also the reason why you've got to do your homework and go deep on some of these plans and some of the insurance coverages. Kim also mentioned long-term care. That's one that I just run into regularly where people who have it wish they had gotten bigger policies; people that don't have it wish they could roll back the clock and have policies. So, that's another big one. So, the out of pocket medical costs are a big one, but the one that hits a lot of people is long-term care, which is not just nursing home care. That could be the cost of someone to care for you in your own home.

CONSUELO MACK: Bring us up to speed on the state of the long-term care that is available to individuals now.

CHRIS BLUNT: Sure, yeah. Well, as most people know, there have been a lot of premium increases. This was a product that was brand new 20, 25 years ago and a lot of actuaries did their best to assume where interest rates might go and how long people will hold these policies. And the reality is the industry was long. Rates have plummeted. People are keeping these policies much longer, using them more. So, a lot of people have had to endure some pretty hefty premium increases for long-term care. But what's interesting is they're not lapsing their policies, meaning they know how valuable this coverage is often because they're seeing a parent or a grandparent be in a position and they realize firsthand how expensive it is. The other thing that's happening, big development and I think it's a positive one, is there's a lot of different products now for long-term care. Not just the pure you pay a premium and we'll give you a per diem rate to help you with nursing home care, but you can have a rider on a life insurance policy where you can accelerate some of the face value to pay for long-term care. You can have an annuity that as a long-term care benefit attached to it. So, I think it's a very positive development, and you're seeing pretty robust sales in those types of products as well.

CONSUELO MACK: And Kim, you had mentioned to me earlier that at Kiplinger's, that you were getting a ton of questions about medical costs and Medicare specifically. So, what do we need to know?

KIM LANKFORD: Well, it's really interesting, but a lot of people just assume it's going to be easy, that they turn 65 and they'll go on Medicare. Well, so many people first of all are still working past age 65, and so they need to make a lot of different decisions than you would have back in the old days when you just signed up and that was it. A lot of times they're delaying signing up for Part B in order to keep their coverage at work, and then pay the premiums for Part B. And by the way, premiums for Part B if you're signing up now are about $134 a month. And if you have more than $85,000 in income if you're single or $170,000 if you're married filing jointly, you have even higher premiums. You have to pay a high-income surcharge. And keep in mind even if you're not working but you're withdrawing money from your retirement plans that was tax deferred, you're still having quite a high income. So, you really need to keep some of these expenses in mind, and also things to fill in gaps. One of the key things that Medicare doesn't cover is prescription drugs. So, you can either buy a Part D prescription drug policy, which is about $34 a month and then still have some out of pocket costs there, or have all your medical and drug costs covered by Medicare Advantage Plan. So, you have all these different choices, and all of them cost different amounts of money. And it's really important to first of all, be very careful when choosing how to fill in those gaps when you first retire, and then if you have the option during open enrollment season every year, to take another look at those Part D policies or Medicare Advantage Plans in your area and see if there's a better one for your particular drugs and needs. You get a chance to do that every fall.

CONSUELO MACK: And the open enrollment is from what, October 15th to December …

KIM LANKFORD: To December 7th. And so, that is the time that every year, take a look at if you have a Part D prescription drug policy, look at what the costs are under the plans in your area for your particular drugs. Don't just look at premiums because your drugs may be very expensive under those plans. You can go to Medicare.gov/find-a-plan. It's the Medicare plan finder, and it really helps you walk through the whole thing, the whole process and look at those total costs.

CONSUELO MACK: And there are places that you can go in your local state for instance because the coverage is different, right, in every state and a lot of the plans differ?

KIM LANKFORD: That's correct.

CONSUELO MACK: So, there are places that you can go to find specifically in your state what are the best plans for you; correct?

KIM LANKFORD: Right. There's the State Health Insurance Assistance Programs; it's called SHIP programs. And a lot of them are run by the area agencies on aging. And if you go to shiptacenter.org or call 1-800-Medicare, they will help connect you with the local SHIP. And they can walk you through what your options are, especially if you're not as internet savvy to be able to use the Medicare Plan Finder on Medicare.gov. They will walk you through all of those options. You can go to them with a list of your medications, a list of the types of doctors that you go to, the hospitals you want to be able to go to if you're looking at Medicare Advantage, and they can help walk you through what those costs will be. So, it's really good that there is a lot of help between the SHIP and the Medicare.gov site.

CONSUELO MACK: So Chris, you just retired, even though you are way too young to look like you have retired. And you're looking at the mistakes that people make, and one of them is that people make mistakes early in retirement. What's one of the biggest mistakes that people make?

CHRIS BLUNT: Yeah, that's probably the biggest one is I think, yeah, you see folks just spending too much money in those first few years, and it's largely because they haven't taken the time and been disciplined about putting a plan together, being realistic about how much money they can withdraw from their savings. And it's just pure math. If you withdraw too much early, you really can't catch up. It has a compounding effect. So that's one.
I think another one, frankly, is you see folks that rightfully want to be generous with other family members. There's a psychology that happens with the big lump sum where just human beings as a rule, we all over-value that lump sum because it seems like a very big number. But you're not thinking, "This has got to last me 30, maybe 40 years into retirement." So, it can dissipate quickly. I often say to clients that you have to learn the art of no. Particularly since in many cases, they're being generous with family members who if they run out of money, it's going to come back to haunt them. In other words, those are those same family members who may have to bail them out.

CONSUELO MACK: Chris, the withdrawal rate. It used to be five percent, now it's down to four percent, and you think that is even a little bit ambitious.

CHRIS BLUNT: Yeah. When I started in the business, it was just sort of a rule of thumb that you can take five percent out of your savings every year and probably not have an undue risk of outliving your money. And as interest rates have plummeted, that came down to four and now there's a lot of academics that are saying that three and a half is probably as high as you might want to go. Now, I'm sympathetic; it's difficult for most people. They look at the amount of money they saved, and you put a three and a half percent multiplier on it, it's not enough money for them to live off of. But I think the real key is to be realistic about what that number is and how much money you can safely withdraw. Because if even half your portfolio is in bonds, it's very difficult to get much more than three percent on a bond portfolio these days. So right off the bat you're starting with a portion of your portfolio that's underneath that four percent hurdle.

CONSUELO MACK: And is that even realistic, to have let's say half of your portfolio in bonds?

CHRIS BLUNT: Well, I think what's difficult is I don't know that there's … any time someone tries to simplify this and give people a simple formula or a simple number. It's just too difficult. So, I tend to be a fan of what's called the bucket of money approach, where even if it's mental, to just mentally segment your dollars. So, there's some amount of money that you need to set aside because you're going to spend it in the next five years of retirement. Well, that needs to be in very safe, probably low-yielding investments because it's got to be there. But the money that you know you don't need to touch but you will need to touch if when you're 85, well, that should probably be overwhelmingly in equities because you've got that long-time horizon. And that gives you an opportunity for some growth and opportunity to keep pace with inflation. So, it's difficult to blend it all together in one number or say a 60/40 blend is the right answer for everybody. I think you really want to go through what's the cash flow need over that lifetime. And the biggest thing that's game-changing in retirement is … we've talked about this before. When Social Security was created, the average life expectancy was 67. It's now 85 to 90. Now there's a one in four chance that one member of a couple is going to live well into their 90s. So, that just changes the math completely.

CONSUELO MACK: And one of the things, Kim, that we've talked about with both you and Chris is when you're talking about 85 plus, is there are actually annuities that you can buy that kick in at 85? And I wanted to talk in this session about insurance because it's something that is often overlooked as a source of income in retirement.

KIM LANKFORD: Well, one of the big risks is you have absolutely no idea how long you're going to live. So, you can look at the averages and you can very carefully plan your calculations based on living until 85, for example. But if you end up living until 95, you have ten extra years. So, as you'd mentioned, there's certain annuities that will pay out way in the future, deferred way long in the future and pay out for example at 85 or 80 if you end up living that long. And that actually really helps out. You invest a lump sum now and you can't touch it for a long time, but you get even more money at that point because you're pooling your risk with other people. Some people will live much longer, some people won't. But for the people who live longer, then you know that you have the money coming in every year. So, you can really plan a beginning date and an end date for the rest of your investments, which otherwise you really can't do.

CONSUELO MACK: What should we talk to a financial planner about?

KIM LANKFORD: These are deferred income annuities, or there's a new version called a QLAC, and that's just a version that helps you avoid having to take required minimum distributions on that money at 70 and a half, which is also something I get a lot of questions about from readers. So many of them are starting to have to take money out of their retirement plans, maybe haven't had to touch some of those plans yet, but now have to start taking out the money and have to start paying taxes on it. And by investing some of this money in a QLAC, they don't have to include that money in their required minimum distribution calculations. So, it just means that they can defer paying taxes on that even beyond age 70 and a half, which is becoming very important to a lot of our readers.

CONSUELO MACK: And Chris, life insurance, because a lot of retired couples or older couples, their children are hopefully self-sufficient adults, they're thinking I no longer need to support a family…talk to us about why life insurance, before you cancel that plan, why you might want to consider continuing to pay the premiums.

CHRIS BLUNT: Yeah, it's interesting. Carriers over the years have added a lot of what they call living benefits to life insurance. So, the purest form of life insurance, you buy a term policy say for 20 years, and if something disastrous happens, money gets paid. And I think that's how most of us think of what life insurance is and does. But actually, the bigger part of the market is permanent life insurance, so a whole life contract, a universal life contract for example, where you're actually building up cash value as well. And that's got numerous benefits. One, you can borrow against it in retirement and you see clients doing this all the time, where it's their only quick source of funds where they don't have to pay an exorbitant rate to access the money. Most contracts have an imbedded annuitization feature, so you can turn it into guaranteed lifetime income. In fact, if you've got an older contract, it's worth looking at the terms within the contract because many of them were written a long time ago that imbedded annuitization rate is really attractive today. So, that's something that a good financial advisor will get to the bottom of and help you decide if that's a contract that's worth annuitizing. And a lot of the newer policies today I mentioned they have things like long-term care riders. So, with a long-term care rider, maybe you pay four or five percent more premium than you'd normally pay for your life insurance contract, but if you have a long-term care event, whether you need a home health aide around the clock, which I'm dealing with right now for a relative, you can access in many cases up to 50 percent of the face value, not the cash value, the face value of the contract. So, think about it, you've got a $500,000 permanent life insurance policy, one of these events happen, you could use up to $250,000 for long-term care. Now, when you die, you're going to get $250,000, not $500,000, but that can be game-changing for a family to have access to that. So, that's when I look at it, when you look at the cost, in many cases you conclude it's just a no-brainer.

CONSUELO MACK: Right. And Kim, are you finding that as well, that actually that life insurance policy can really come in handy, especially considering that so many people really have under-funded their retirement?

KIM LANKFORD: Well, and that's exactly right. And also, if you do have a pension, you need to really keep in mind whether there is a spousal death benefit on the pension because that makes a huge difference. I mean in some situations, some people chose to have a higher pension amount, because maybe they hadn't saved enough, and as a result, their spouse may not get anything after they pass away. Also with Social Security, a lot of people don't realize that they might not get as much after they pass away. Their spouse will have to live on less income than you had with the two payouts combined. So, you really need to keep those things in mind. Also, those combination policies, the ones that provide both long-term care and life insurance are very intriguing to a lot of our readers because they're worried what if they don't need long-term care? What if they end up being very healthy and then just passing away? They don't want to spend all that money on premiums. So with this, they know that the money is going to go somewhere. It's either going to go to their spouse or their children, or it's going to pay for long-term care. And those are two very, very important needs for them.

CONSUELO MACK: Chris, one of the things again, looking at retirement is that some of the other issues that people don't really consider you said are behavioral.

CHRIS BLUNT: Well, one big one, and Kim just touched on this, I mean you can make an argument that retirement is a women's issue because women outlive men. Back to the mistakes that people make in retirement, what often happens, less so today but certainly in generations before, finances were the man's world and they covered all that. And I'm going through this right now with my aunt. My uncle passed away five years ago, and he clearly did everything, and she did not have a sense of what was happening. So, he made some good decisions, he probably made some decisions he may not have made, but the reality is, this is just completely foreign to her and she's now trying to come up to speed. And yet she's really bearing the brunt of this because she's already outlived him by five years and for all we know, could outlive him for another 10. So, it's really important.

CONSUELO MACK: The other thing I think, Kim, that you had mentioned to me in a previous conversation was the fact that once you're on Medicare and you've got your Medigap insurance or whatever, that you really need to review it every year for any number of reasons. Why is that so important?

KIM LANKFORD: Well, your healthcare costs change from year to year. Your Medigap, it does become more difficult to shop around from year to year because after the first six months after you've originally signed up for Part B, that's when you can get any Medigap policy. And after that, if you try to switch, actually preexisting conditions can enter into the cost, or you could be denied by an insurer. So even though …

CONSUELO MACK: So still, I mean even though …

KIM LANKFORD: … the rest of health insurance …
CONSUELO MACK: … Obamacare has not been repealed yet, that is still a factor to consider.

KIM LANKFORD: That is still a factor. But the key thing is if you have Part D for prescription drug coverage or Medicare Advantage, which is where you have both your drugs and your medical costs covered by a private company, in those cases you can switch plans from year to year. And that's during open enrollment in the fall, and it's very important because your healthcare plans, your healthcare needs change from year to year, and the plans change from year to year as well.
So, take a look at what the drug coverage is, take a look at whether your doctors are still included, whether the hospitals you'd want to go to are included, and what the total out of pocket costs could be for you, not just the premiums.

CHRIS BLUNT:It's really about financial independence, of putting people in control of their destiny. So, a good financial advisor really has in my opinion one job, and that's to get you to that point of independence as quickly but as prudently as possible. Because one of the most ludicrous questions is often planners start with, "Well, when do you want to retire?" Well, that presumes you're in control of that. Very few people actually call the day of their retirement. Some are really fortunate to do that, but what happens more often than not, they're downsized by a company, they have a health issues, their spouse has a health issue. There's a child care issue that pulls them out of the workforce.

CONSUELO MACK: For an elderly parent issue; right.

CHRIS BLUNT: So, you can build a beautiful plan that says I'm going to retire at 65, but if one of those things happen and it's 57 or 58 or 53, well, that changes everything. So, it's really about how can I without sacrificing any form of a life today prepare myself to put myself in that good position of somewhat independence.

KIM LANKFORD: And the independence is a key thing, just based on the questions I get from readers. I get questions from so many readers who are over 70 and a half and they're still doing some consulting work or some freelance work. Or they're doing a small job, just a few hours a week, and they want to know about whether they need to take their required minimum distributions. But the key thing is that they are still doing some kind of work. And sometimes it's for money, and it's a lot less money than they may have been earning in the past, but it still makes a big difference.

CONSUELO MACK: Kim Lankford, one investment for a long-term diversified portfolio, what would you have all of us own some of or do?

KIM LANKFORD:I think the most important thing is a health savings account, an HSA. And this gives you a triple tax break. If you have a high-deductible health insurance policy, which so many more people have these days, you get to put in the money pretax or tax-deductible, it grows tax-deferred, and then you can use it at any time in the future tax-free for medical expenses. So, you don't have to use it by the end of the year like FSAs that people have at work. You can use it 10, 20 years in the future, even though you can't make new contributions after you're on Medicare, you can use the money from the HSA for all kinds of medical expenses, plus Medicare premiums, Medicare Advantage premiums, Part D premiums, and you can even use a portion of it for long-term care premiums based on your age.

CONSUELO MACK: Chris, what would yours be?

CHRIS BLUNT: Closely related to that, have a long-term care plan. So, that could be long-term care insurance, it could be a rider on your insurance policy, it could be an annuity. But I think that's the one thing, it's called long-term care, you can argue it's really retirement insurance. You can do a lot of things right and have it all blown up because of a long-term care event. So, I would say plan for long-term care in one way, shape or another.

CONSUELO MACK: So Chris Blunt, thank you so much for being with us on Wealth Track, and Kim Lankford, it's lovely to have you here too. Thanks both of you for being here.

CONSUELO MACK: At the close of every WEALTHTRACK we try to give you one suggestion to help you build and protect your wealth over the long term.
This week's Action Point is: **Don't overlook the contribution life insurance can make for retirement.** In its simplest form, such as a term life, it provides immediate cash to any beneficiary to cover expenses. It is also a tax-free benefit.
As discussed there are permanent life insurance policies that offer much more.
You can borrow money from them in retirement. Many contracts have an imbedded annuitization feature which can be turned into a guaranteed stream of income for life. Some newer policies offer long-term care riders that enable you to use the policy for long term care costs. It's worth discussing these options with a financial planner, many of whom are knowledgeable about life insurance as well.

Next week, we search for income in emerging markets with Andrew Foster, who runs the *Morningstar* silver medalist Seafarer Overseas Growth and Income Fund.

This week on our website's EXTRA feature Chris Blunt and Kim Lankford share their personal motivations for devoting so much of their careers to helping people achieve secure retirements. It's a calling for both.

Please keep sharing your thoughts with us on Facebook and Twitter.

Thank you for watching. Have a great weekend and make the week ahead a profitable and a productive one.