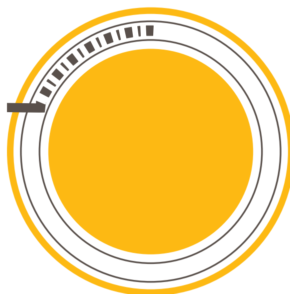
About the Insured Retirement Institute:

The Insured Retirement Institute (IRI) is the leading association for the retirement income industry. IRI proudly leads a national consumer coalition of more than 30 organizations, and is the only association that represents the entire supply chain of insured retirement strategies. IRI members are the major insurers, asset managers, broker-dealers/distributors, and 150,000 financial professionals. As a not-for-profit organization, IRI provides an objective forum for communication and education, and advocates for the sustainable retirement solutions Americans need to help achieve a secure and dignified retirement. Learn more at www.irionline.org.



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OVERVIEW

General consensus is that most Americans hope to enjoy a long, healthy retirement, with su cient income to meet all of their needs. Achieving this goal means understanding how assets and other income sources can be most e ciently accessed to generate sustainable lifetime income, and the impact that various costs will have on spending power. Of these costs, none are more important to understand and to plan for than health care. Cumulative medical expenses, including premiums and out-of-pocket costs, can potentially reach hundreds of thousands of dollars over a retiree's lifetime. Intuitively, maintaining optimal health throughout retirement lowers the probability that medical costs will eat into income and lower a retiree's standard of living. However, in doing so, one also increases the probability of living to an advanced age and experiencing illnesses and in rmities more common at such ages, such as dementia. Put simply, poor health may require higher health care spending over a relatively shorter period of time, while excellent health and longevity threaten the exhaustion of retirement funds at an advanced age. Moreover, signi cant health care costs are more likely to be incurred in a retiree's later years, highlighting the importance of adequate, sustainable income.

Understanding how health status may impact longevity, medical expenses, and income needs can help advisors and retirees develop optimal strategies for constructing income portfolios and planning for health care costs.

KEY FINDINGS AND ANALYSIS

- A 65-year-old male in excellent health can expect to live to age 87, while the same male in poor health (e.g. high blood pressure, high cholesterol, and tobacco use) has a life expectancy at age 65 of approximately 81 years[1].
- Medicare will only pay approximately 60% of health care expenses; the rest must be covered by supplemental insurance or out-of-pocket spending [2].
- Average cumulative health care expenses including insurance premiums, for a 65-year-old male in excellent health can be expected to reach $345,000; the corresponding estimate for a 65-year-old male in poor health is about $246,000 [3].
- Those in excellent health will spend less on an annual basis, but more over their retirement due to their longer expected lifespans.
- Healthy individuals have lower projected annual income requirements than unhealthy individuals due to lower expected annual health care costs, but can expect to incur higher total health care costs due to increased longevity.
- Retirement income strategies using only systematic withdrawals fall short, and risk depletion of assets at an advanced age, when the majority of Social Security income may be consumed by health care expenses.
- Average investor returns in allocation funds over the past 30 years are 1.9%, far short of the returns needed to sustain a systematic withdrawal approach over a lengthy retirement [4].
- Retirement income strategies using annuities can increase the probability a healthy individual will be able to manage health care expenses and maintain their standard of living in the face of unpredictable, rising health care costs over the course of a lengthy retirement.

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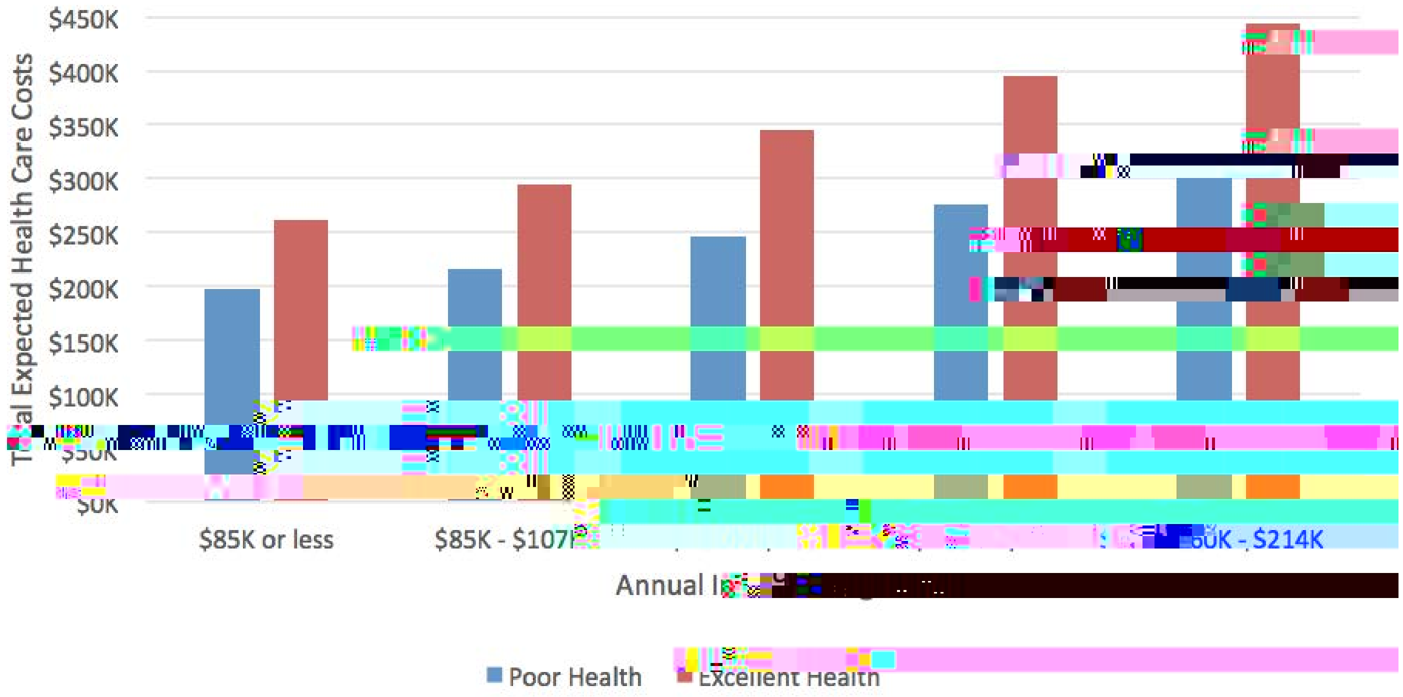

Source: HealthView Services, Inc.

LONGEVITY AND RELATIVE HEALTH CARE COSTS

A 65-year-old male in excellent health can expect to live to age 87, while the same male in poor health (see below) has a life expectancy at age 65 of approximately 81 years; a 65-year-old female in excellent health has of 89, or 84 in poor health[6]

In the real world, in terms of health metrics, most individuals will not exhibit all risk factors or all healthy criter combination of traits. For the purpose of this analysis, excellent and poor health are de ned using the comm shown in the table below.

H	E H	H
Blood pressure	Normal	High
Cholesterol	Normal	High
Last full physical	Within past 12 months	More than 12 months ago
Exercise	2 or more hours per week	Less than 2 hours per week
Diet	Healthy, well balanced	Poor
Tobacco use	No	Yes
Family history of diabetes or cardiovascular disease	No	Yes

Source: HealthView Services, Inc.

So while the healthy individual, due to longer life expectancy, is projected to incur higher total health care
individual in poor health can expect to incur higher annual expenses, eating further into retirement income a
lowering standard of living. The di erence at the $107,000 to $160,000 income-level range at retirement is strik

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Source: HealthView Services, Inc.

A retiree in excellent health, based on national average costs, can expect to spend almost $100,000 more
throughout retirement than someone in poor health, while experiencing lower annual health care expenses,
early years of what may be a long retirement. The average 65-year-old will live to be 84.1 years old, but wil
only 78.9 years.[7] The di erence of 5.2 years, on average, represents the time from the onset of declining health
Intuitively, the probability also increases that those 5.2 years will represent a period of increased spending or
individual in excellent health will likely be older than the average retiree when reaching "health expectancy
a period of declining health, highlighting the importance of creating a sustainable income stream su cient t
potentially increasing expenses. In other words, the healthiest retirees need to think about health care expend
signi cantly after many years living in retirement, and take steps to ensure they do not deplete their income s
reaching health expectancy.

As an individual in excellent health approaches life expectancy, income needs and health care expenses acce
average historic investment returns, those cumulative expenses will likely outpace the systematic withdrawal p
to generate sustainable income.

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In these examples, due to the shortened life expectancy of someone in poor health during retirement, the illu
the SWiP-only approach “winning,” leading one to conclude that the life annuity is not optimal for someone i
This may indeed be the case, but such individuals may also be candidates for underwritten annuities, which p
payout for the same investment (or conversely the same payout for a smaller investment) and would potentially
in favor of the approach using annuitization. The salient point is that the annuity option should be evaluated for
a realistic assessment of expected health care costs and their relationship to income needs performed in orde
best approach for each unique individual.

A word on expected returns: as noted, we use a 3% average compound annual return in these analyses, conse
blended asset class return observations but perhaps aggressive relative to investor returns. Regardless the
there is another risk important to address in the context of these analyses and the creation of income plans in ge
of returns” risk. This is the risk that two individuals with the same average annual return can experience very di
depending on the order in which the actual annual returns are experienced. Speci cally, negative returns in
devastate a portfolio, whereas experiencing those returns in later years may only have minimal impact on outc

The chart below compares two outcomes, both assuming the same $1,000,000 portfolio, the desired income
health care expenses of a healthy individual retiring at age 65, and a 3% average annual compound rate of

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