An Essential Client Conversation
“Will I be able to pay for my hip replacement at age 85?”
By Dan Richards
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Advisors face a big challenge in planning for boomers. Your assumptions about how long they'll live and the nature and cost of their lifestyle as they age will dramatically impact your planning decisions.

Conversations with boomers about those topics and about the implications of funding health care are difficult but important.

An increasing number of boomers are looking for leadership and guidance from their advisors in these kinds of discussions – more and more, having informed conversations on these topics is one of the things that sets superior advisors apart. Today's article provides advisors with background and context to have useful conversations with boomer clients on this issue. As a result it is longer than normal.

Three important factors make this an essential client conversation:

1. The continuing rise in life expectancy, at a rate that would have been inconceivable in the past
2. The shifting views about the kind of lifestyle boomers will maintain in retirement
3. Increasing pressure on government's ability to fund demands for health care – and a growing sense among boomers that they'll be funding "discretionary" health care in future

What makes this so complicated is the remarkable explosion in life expectancies in the past 100 years, something that is continuing as you read this. In fact, life expectancies have increase twice as much in the past 100 years as compared to the previous eight centuries combined.

Not only are we seeing people live longer, many clients have an unprecedented determination to live active lives into their eighties and nineties. This puts an intense strain on retirement projections – you need to be conservative enough so clients won't run out of money.
money, but not so conservative that clients deprive themselves unnecessarily, especially in the earlier stages of retirement.

To have informed discussions about lifespans with clients, it's important that advisors have a solid foundation of knowledge on this issue. This article is designed to provide background that will make these conversations easier and more productive.

Within this article are links to articles you can share with clients and to two videos that can assist advisors in these conversations:

1. An interview with Moshe Milevsky of York University on assumptions about lifespans for retirement plans

2. A TED talk about research on the behavior associated with longevity

**Issue 1: Putting life expectancy in perspective**

The [World Economy](http://www.worldbank.org), a web site maintained by the OECD, provides useful insights on patterns of longevity across the centuries.

When Charlemagne ruled much of Europe in 800 or William the Conqueror invaded England in 1066, the average life expectancy at birth was about 26. This was comparable to what demographers estimate as life expectancy for the ancient Greeks in 400 BC. In effect, you'd had 1,500 years with no progress on lifespans.

In the next 700 years, the Western world's life expectancy grew by about 10 years or 1.5 years per century, so that by 1800 the average life expectancy at birth in the US was 36. With industrialization and urbanization, developed countries saw life expectancies start to accelerate – the 19th century saw lifespans grow by 10 years, to 46 years by 1900.

Up to 1900, there was no perceptible increase in life expectancy in Africa, Eastern Europe or much of Asia. Essentially, these regions had 2,000 years with a minimal increase in lifespan, in large measure because of lower levels of urbanization and economic growth.

**The explosion in life expectancy**

In the 100 years after 1900, life expectancies grew by an astonishing 32 years, to the point that today the average child born in developed countries can expect to live to age 78. In other words, life expectancies in developed countries grew twice as much in the 1900s as in the previous eight centuries combined.

Scientists caution that many of the factors that extended lifespans in the twentieth century were one-time events.
For instance, you saw dramatic reduction in deaths at birth, both of mothers and newborns. In the 1800s, childbirth ranked among the most common causes of death for women; as recently as 1900, maternal death rates were estimated to be around 1 in 100 births – today the number in the United States is 1 in 10,000. Through history, women's life expectancies were significantly lower than men's as a result.

Furthermore, advances in vaccines and antibiotics have had a huge impact. Here's what the Center for Disease Controls lists as the three most common causes of death in the US in 1900:

1. pneumonia / influenza
2. tuberculosis
3. diarrhea / diseases of the intestine

Scientists have argued that since its discovery in 1928, penicillin has saved more lives than any other medication. That's one reason that lifespans increased by a remarkable 20 years in the first 50 years of the 20th century – slowing down to increase by "only 12 years" in the second 50 years. In developing countries, however, pneumonia and diarrhea continue to be the top two causes of death in children under five.

**Lifespan going forward**

There are two views on whether life expectancies will continue to increase at the rate we saw in the last hundred years.

The pessimists point out that the easy gains have been made and that future increases will come in smaller increments. Further, they point to obesity and lifestyle issues as depressing lifespans.

The optimists point to the impact of the huge investment in scientific research around the world, combined with the role of the internet in allowing global collaboration and instant dissemination of discoveries, making investments in research much more efficient and leading to new advances.

Many advisors have seen the statistic that if you have a normal 65-year-old couple as clients, chances are 50% that at least one will live to age 90. This interview with York University's Moshe Milevsky outlines his view that boomers should plan to fund 30 years of retirement:
Here's a summary of historical life expectancies for Western Europe and North America:

<table>
<thead>
<tr>
<th>Year</th>
<th>Life Expectancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1100</td>
<td>26 years</td>
</tr>
<tr>
<td>1800</td>
<td>36 years</td>
</tr>
<tr>
<td>1900</td>
<td>46 years</td>
</tr>
<tr>
<td>1950</td>
<td>66 years</td>
</tr>
<tr>
<td>Today</td>
<td>78 years</td>
</tr>
</tbody>
</table>

Whether you're an optimist or pessimist on life expectancies, it's certain that we'll see continued expansion of lifespans – what's in question are:

1. The pace of the increase.
2. The extent to which scientific advances will deliver an increased quality of life to accompany the increased quantity of life they're already providing.

**Issue 2: Extending active lifestyles as we age**

Retirement isn't just about duration of life; just as important is quality of life.

Michael Stein, author of *The Prosperous Retirement*, identifies traditional retirement as consisting of three phases:

1. **“Go go” – up to age 70 or 75**
   
   In this first phase, retirees are the most active, fulfilling objectives to splurge and to travel. It's here that discretionary retirement expenses peak.

2. **“Slow go” – 70/75 to 80/85**
   
   In this stage, health starts to become an issue and interest in travel declines. Often retirees get into fixed routines – shop on Mondays, bridge on Wednesdays, eat out on Fridays. Energy level drops, getting outside of routines becomes daunting and travel may become more effort than pleasure. It's in this phase that many retirees downsize homes.

3. **“No go” – 80/85 plus**
   
   In this final phase, physical and cognitive health become real issues. One spouse may pass away, leaving the other struggling in the aftermath. And it's here that seniors enter a retirement home or alternate care facility.
Here's a summary of this three-stage retirement model you can share with clients:

**Defying the laws of aging**

Show this model to affluent boomers and a common response will be that while the three phases are intuitively logical, the ages at which they kick in won't apply to them. In a recent article on *The Coming Retirement Revolution*, I pointed to research in which boomers emphatically deny they will be their parents' retirees and are determined to lead more active, interesting lives and live much longer than previous generations of retirees.

As a result, similar to 16th century Spanish explorer Ponce de Leon, many boomers are seeking to defy the historic laws of aging, looking for a modern day fountain of youth.

This has led to a proliferation of books on how to suspend aging, based on scientific research that's identified common patterns among those who live active lives into their nineties. These books don't suggest we can defy our genes – we all know of fit and apparently healthy people in their fifties who die of heart attacks or breast cancer – but they are aimed at tilting the odds of staying healthy in our favor as we and our clients age.

**Research on extending active lives**

One of the most widely followed books in this genre is *Younger Next Year: A Guide to Living like 50 until You're 80 and Beyond*. Co-written by Chris Crowley, a retired managing partner of a New York law firm, and Henry S. Lodge, a professor at Columbia Medical School, this book was excerpted in Fortune Magazine when first published in 2005. It focuses on five deceptively simple principles:

1. Exercise six days a week – seven if you can
2. Eat what you know you should – and cut out the crap
3. Spend less than you make
4. Connect to other people
5. Commit to feeling passionate about something.

Another popular resource is *The Blue Zone: Lessons for Living Longer from the People Who've Lived the Longest*, published through National Geographic Books. This book identifies "blue zones" with largest pockets of long lived, disability-free residents in Italy, Japan, Mexico, Costa Rica and Loma Linda in Southern California.
This book offers similar advice to *Younger next Year*:

1. Focus on constant physical activity
2. Eat wisely, focusing on the 80% rule to stop when you feel 80% full
3. Connect to a community
4. Seek out the right tribe – have friends whose habits are as healthy as yours

Here's a [video](#) of a TED talk by the author of *The Blue Zone*.

And here's an [article](#) profiling the authors of *Younger next year*.

**Will reality match the promise?**

These books offer boomers an alluring promise – that with sufficient discipline, we and our clients can forestall the ravages of age that we've seen affecting our parents and grandparents. Clearly, exercise, diet and outlook can increase the odds of this to some extent – what's unclear is how much.

The other big question is whether science will have the same success in preventing mental aging as it has in extending life spans – despite all of the research dollars thrown at Alzheimer’s, Harvard economist David Laibson has pointed out that past age 70, the incidence of severe cognitive decline doubles every five years. We've already seen the first spate of devices such as Nintendo's Brain Age with claims of anti-mental aging properties, but as yet these are unproven.

**Issue 3: Funding health care in retirement**

The final uncertainty relates to the ability of government programs to fund escalating health cost for seniors.

Talk to boomers about their retirement concerns and high on the list is the ability of government to provide ready access to the health care they want when they want it. The downside of the spate of scientific discoveries that can extend lives is the high cost of many of these treatments and the ability to fund it for everyone who wants it.

As one small example, here's an [article](#) from the June 28, 2011 *New York Times*, describing new treatments for prostate cancer that cost $100,000.

There is a growing consensus among many boomers that they can't rely on government funding for their hip replacement at age 80 or the $100,000 cancer treatment at 85 that will
extend their life by six months. As a result, many boomers are open to conversations about options to fund these kinds of expenses themselves.

Along similar lines, many boomers have experienced the typical retirement and nursing home when visiting clients, parents or other relatives. While these often have caring staff who show remarkable dedication to residents, for most affluent boomers the experience when visiting a retirement home costing perhaps $2,500 monthly is not uplifting. In a recent roundtable with boomers, I was struck by the awareness of high-end alternatives, such as the Sunset chain of retirement communities, which provide a much more upscale experience, with a price tag to match.

As I said at the outset, these won't always be easy conversations. But what is difficult is often important – and these tough discussions will deepen your bonds with clients and reinforce your worth.

Dan Richards is a top-rated presenter at advisor conferences and an award winning instructor in the MBA program at the University of Toronto, as well as author of Getting Clients Keeping Clients: The Essential Guide for Tomorrow’s Financial Advisor. To learn more about his conference keynotes and workshops, email dan@clientinsights.ca.

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