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An Evaluation of Methods to Provide Financial Stability as a Person Ages

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AN EVALUATION OF METHODS TO PROVIDE FINANCIAL STABILITY AS A PERSON AGES.

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by

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Abstract

Interviews with financial planners, investment bankers, trust officers, and retired persons were conducted in order to make an evaluation of methods to provide financial stability as a person ages. Emphasis was made on Medigap and Long-term Care Insurance Policies and investment of lump sum retirement distributions. The financial planners recommended that retired persons, not eligible for a continuation of employer health insurance, purchase Medigap or HMO coverage to supplement Medicare. The financial planners also recommended purchase of Long-term Care Insurance. Information provided by investment bankers and trust officers indicated that retirement funds invested in Equity or Fixed Income Investments with minimum withdrawals will provide a lifetime income for retired persons. Interviews with retired persons confirm that they do have financial security because of taking minimum withdrawals from their accumulated assets and with the purchase of Medigap Insurance when there was no continuation of employer health insurance. Retired persons indicated a general lack of interest in Long-term Care Insurance except when peace of mind could not be achieved without it. The survey and other

information provided prove the hypotheses that lifetime financial security is attainable.

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Section I

The Problem

In a speech before the Boettner Institute, Matilda White Riley (1990), an Associate Director for Behavioral and Social Research of The National Institute on Aging talked about the fallacy of inevitable aging decline. She said that:

> "Much research has demonstrated that the doctrine of inevitable aging decline is a fallacy; a fallacy initiated by faulty interpretation of cross-sectional data. Nevertheless, despite all evidence to the contrary, this fallacious doctrine is still blindly accepted by many government policy-makers, corporate executives, professional practitioners and the public at large. The stereotype of inevitable decline remains stubborn. The very notion of aging seems to connote decrepitude, poverty and misery. Physicians are found to spend less time with older patients. Old people, themselves, take their aches and pains for granted and assume - falsely - that they cannot learn new skills or ways of thinking."

There are many joys left in life, in the opinion of this author, if older people continue to learn and remain physically active. This thesis should illustrate that prudent investments with lump sum retirement benefits and adequate health insurance can help older people avoid the poverty referred to in the aforementioned speech.

One of the joys of living in the late 20th century is the likelihood of

living a long life. According to Coles (1992), the older population is getting older. In 1989, there were 18.2 million people ages 65 to 84. That was 8 times as many people in that age group as there were in 1900. But that same year there were 9.8 million people who were ages 75 through 84. That was 13 times larger than the 1900 crowd, and there were 3 million people age 85 and older. The latter figure was 24 times the people in that age group that existed in the year 1900. Currently, a person aged 65 can expect to live another 17.5 years according to the Walker (1997) Life Expectancy Chart.

If our destiny is to lead a good long life, then most of us want to be financially secure during our years of retirement. The majority of us would like to remain reasonably independent with a mature interdependency with our families and friends. Fortunately, according to Haber (1994), households headed by persons age 55 to 74 clearly dominate contemporary wealth distributions. This wealth may be necessary because of the longer lives we are destined to lead as cited above.

Walker (1997) says that until recently, most pension plans were of the defined-benefit type that provided a certain percentage of an employee's income for the rest of his life after retirement. Brown (1996)

tells us that defined-contribution programs are becoming more and more popular as compared to the defined-benefit program. In a defined-contribution plan the employee makes the investment decision. Brown feels that too much of the risk is placed on an individual participant who has inadequate knowledge and experience to make strategic retirement investment plan decisions. Walker (1997) talks of a "looming retirement crisis" because an increasing number of participants bear the responsibility for directing investments in their own defined-contribution plan. Walker (1997) tells us that 401K plans are the fastest growing type of retirement saving and, of course, a 401K plan consists of a defined-contribution plan in which the participant directs the investment.

Walker (1997) tells us that twenty years ago, it was common for an employer to make some provision for an employee to continue to be covered under a group health insurance program after retirement. He tells us that Statement of Financial Accounting Standards Number 106, which was promulgated in December, 1990, forced employers to accrue the cost of future retiree health claim costs on the company balance sheet. In addition, the present value of future costs were to be recorded on current financial statements. Implementation of this new standard caused many employers to discontinue offering group health insurance

benefits to retired employees and new employers to procure group health insurance that does not provide retiree coverage.

Fortunately, Medicare is available to replace the health insurance that most people carried when they were employed. According to Solomon (1992), Medicare is the nation's largest group insurance plan with somewhat in excess of 33 million members. Most states have mandated that Medicare supplemental insurance policies follow uniform guidelines. There are ten different supplemental policies available to persons eligible for Medicare. These policies are provided to cover the expenses not covered by Medicare. A person should also consider long-term care insurance as a primary source for funds to pay for a stay in a long-term care facility. According to Atchley (1997), Medicaid, in addition to Medicare, private health insurance, and long-term care insurance, will play an important part in providing benefits for some senior citizens.

PURPOSE OF THE STUDY

What U. S. Citizens need is a simple way to provide lifetime financial security. According to Cutler (July 1996), financial literacy is difficult to obtain. Therefore, the purpose of this study will be to

comprehend and communicate ways to improve financial stability as a person ages, regardless of longevity.

IMPORTANCE OF THE STUDY

According to Walker (1997), our aging population must prepare for retirement on an individual basis. While it is true that most employers help an employee accumulate retirement funds, the employee must make investment decisions and decide on the allocation and distribution of those funds during retirement. Most employees have been accustomed to having group health insurance through their employer and being able to depend on a benefits administrator to advise on benefits and handle difficult claims situations. After retirement, those services are no longer available. We are all living longer and more independent of our relatives than at any time in history. When a debilitating physical condition occurs, it is possible that a person will spend some time or maybe a lifetime in a long-term care facility. Solomon (1992) states that no one is ever too poor to begin charting a plan to financial independence. If this study can provide information that will help people have that financial independence, especially during their retirement years, then older people will be able to lead more useful lives in other areas because the financial

side of life will be handled. Brown (1996) states a leisure class that is free from productive obligations and is oriented to self improvement can prove to be socially valuable and have great potential to add to the world's body of knowledge and artistic beauty. This study may help persons make decisions regarding financial matters that will free them to work toward fulfilling Brown's ideals.

HYPOTHESIS I

Use of a professional investment advisor, corporate trustee, or mutual fund will allow a person to accumulate assets that will allow adequate retirement income, income after the death of a spouse, allow for inflationary income increases, and help pass accumulated assets to a later generation.

HYPOTHESIS II

Retired Persons are able to acquire health insurance that provides lifetime security for the retiree and spouse.

DEFINITION OF TERMS

Defined-benefit pension is designed as one that will pay a fixed dollar amount in retirement pay to a retired employee.

401(K), 403(B), Section 457 or a **defined-contribution** plan are retirement plans that help an employee accumulate funds for retirement but they usually do not mandate a particular savings vehicle but rather offers choices to the employee.

Medicare is defined as the government provided group health insurance for persons age 65 and over including part A which generally provides hospital services and part B which generally provides physician services.

Medicare supplemental or **Medigap insurance policy** is one that is designed to supplement the benefits available through Medicare or to fill in the gaps not covered by the Medicare program.

Long-term care is defined as that which is provided in a long-term care facility which exists to handle people who have health problems that will likely continue on an indefinite basis.

Long-term care insurance is defined as that which is designed to pay the cost of confinement in a long- term care facility.

HMO or Health Maintenance Organization is a medical care group that provides prepaid medical services ranging from physical examinations to hospitalization at little or no expense to the participant.

Equity Accounts are investments in preferred and common stocks of public corporations.

Fixed Income Accounts are investments in bonds and other financial instruments that provide the same income regardless of market prices.

Real Estate Investment Trusts are investments in organizations that acquire real estate for rental purposes and generally pay a steady rate of income to shareholders.

OUTLINE OF THE REMAINDER OF THE STUDY

Section II reviews literature and other research that has been done regarding retirement planning and financial gerontology. Special attention was paid to very recent materials available through the internet and through insurance industry sources.

Section III includes the procedures that were used in conducting this study. It includes a selection of participants to interview including financial planners, trust officers and retired persons.

Section II

Review of Literature

OVERVIEW

This section is devoted to a review of journal articles, technical manuals and books, an occasional newspaper article, and some resources available through the internet. It provides information on current thinking on the best use of economic resources to provide a lifetime of financial independence for a retired person and spouse if applicable.

HISTORICAL BACKGROUND

According to Cavanaugh (1993), retirement was rarely considered by most Americans prior to 1935 when Social Security was inaugurated. The enactment of Social Security and the advent of various pension and savings plans have changed our attitude regarding retirement. Now, most people consider retirement a right which he feels is rather curious considering that work has long been considered virtually a moral obligation. Retirement was not much of an issue for mankind prior to the modern era. Brosterman (1970) states that despite relatively high

earnings few people have been able to accumulate capital. He explains that it is a modern dilemma.

Brown (1996) notes that in the past, the health problems of elderly people were not very different than those of any other age group because fewer people lived into their 60's and later than do now. Medical insurance in this country became common during World War II and shortly thereafter. Costs for health insurance were age rated and it was the elderly population that paid the highest price. Gradually, it became apparent that only the wealthy aged could afford to carry health insurance. In reaction to this, the Medicare law was passed in 1965. At the time of its enactment, it was probably the best insurance that anyone 65 or over had ever had. Even so, most insurance companies began offering supplemental insurance policies to cover the deductibles under Medicare and for extended benefits when Medicare was depleted. Gradually, it became apparent that some older people purchased several Medigap policies most of which were unnecessary. In reaction to this, most states, as mentioned previously, have enacted legislation that allows insurance companies to only offer standardized Medigap policies.

Abeles (1994) points out the demographic changes that have influenced policy decisions concerning long-term care in the United

States. Because of the rapidly increasing number of people over age 65, the need for long-term care will at least triple and that the associated costs will increase ten fold in the next 50 years. Volumes have been written about our aging population, the lack of family care for the elderly, and the ability of modern day medicine to extend life even when someone has a debilitating illness. These same factors that have created the need for a long-term care system have created the need for some type of insurance to cover the expenses. Atchley (1997) found that long-term care insurance policies have been written by private insurance companies since 1982. He states that that an obstacle to the development of wide spread acceptance of long-term care insurance is the misperception that Medicare and Medigap policies cover long-term care when in fact they do not. Furthermore, there are some people in the insurance industry that feel that long-term care insurance demand is offset by the perception that Medicaid will cover the cost for most people. The public needs to be educated as to the difficulties in qualifying for Medicaid to pay for long-term care expenses.

RECENT LITERATURE

Tiffany (1996) refers to retirement as the "harvest years". He

suggests that retirement moneys of a defined-contribution program should be invested on a regular basis over a long period of years. He suggests that the volatility of the market be ignored and that assets be diversified through the investment years. He suggests allocating some funds to the equity market, some to the bond market, and some to the money market fund. On the other hand, Flanagan (1992) does a thorough review of the various investment vehicles available and comes to the conclusion that the only way to beat the rate of inflation is by investing in quality equity and bond funds, both of which generally produce annual returns of 10% or more over a period of time. The 1995 Ferris article points out that almost no new companies begin a defined-benefit plan for retirement and he stresses that employees are forced to become participants in retirement planning decisions. Adequate counseling will help plan participants make intelligent investment decisions. Cutler (1996) emphasizes the need for financial literacy particularly among the baby boomers who are rapidly creeping towards retirement age. Cutler gives the baby boomers a high grade for wealth accumulation and a low grade on their financial literacy.

All of the aforementioned articles have several good ideas on accumulating money for retirement and lots of good advice on how the

investments should be made. None of the articles offer advice on the allocation and distribution of funds during the so called "harvest years".

According to a 1996 Deloitte & Touche OnLine web article, many retirees have group health insurance through their employer up until the time of retirement. Some employers continue to provide group health insurance for their retirees. As a general rule, the group health insurance plan will then pay all or most of the expenses that are not covered by Medicare. That is the best type of health insurance to carry into retirement. The article also points out the substantial costs that are now payable by the individual who is insured by Medicare. Many retirees now purchase Medigap insurance to help pay those costs. Medicare and Medigap insurance will only cover a relatively short nursing home stay that is directly related to an illness or injury. Accordingly, many retirees purchase long-term care insurance. Medicaid will provide long-term care benefits to older Americans that have very limited income and assets.

Dawson (1996) points out that the long-term care insurance business has matured over the last 20 years. He goes on to state that given today's reality, middle class Americans will find that private insurance is the only viable solution to the problem of funding long-term care. In the 1995 Novack article, it becomes apparent that long-term

care insurance is not as necessary as it once was because the elderly are becoming disabled later and less often than they were 10 years ago. Technology provides more help for the partially disabled older person and that this technology and home health care allows people to live out their lives in their own home. Cutler (1996) points out that there can be little doubt that long-term care planning should be an essential element of every family's financial planning.

Section III

Methodology

RESEARCH DESIGN

Seven trust officers, investment bankers, and financial planners were interviewed as to recommendations for the various financial products available. In addition, five retired persons currently making use of these various products were interviewed to test the accuracy of the recommendations.

SELECTION OF THE SUBJECTS

Subjects for this study consisted of financial planners, trust officers, investment bankers, and retired persons. The subjects were selected from a number of diverse agencies. Current information received from the financial planners and trust officers provided enough data so that the programs of the retired persons could be carefully evaluated.

EXPECTED FINDINGS

It was expected that the financial planners and trust officers who currently handle retirement funds would report that equity investments

have increased in value by 10% or more per year over a long period of time. It was anticipated that in many cases retired persons can live on the income from Social Security supplemented by a percentage of the average annual gain of the retirement funds that they are investing. It was also anticipated that the income provided from the retirement plan will allow a person to purchase the necessary insurance products so that the high cost of modern day medical care will be mostly absorbed by Medicare and Medigap insurance.

PROCEDURES

In order to get current information it was the intent of this study that two trust officers would be selected from among the four major trust companies that operate in Omaha, Nebraska. In addition, two investment bankers would be interviewed regarding the returns available through commonly used Mutual Funds. Three persons who currently offer Medigap and Long-term Care Insurance to persons over age 65 were also interviewed. Five retired people were interviewed after being selected from persons retired in Omaha, Nebraska. In each case, an appointment was arranged by telephone. During the phone call, the exact information requested was reviewed.

First the trust officers and investment bankers were interviewed about a variety of financial products that are available for the use of persons who have accumulated funds in a defined-contribution retirement plan. Trust officers who usually work for a bank or trust company stated that they now offer some of the same financial products that are offered by investment bankers as well as other services including administration of custodial accounts for the retiree and/or family members. Various financial products were reviewed including equity investments, fixed income investments, and/or a combination of these investments. These investment results were later used when reviewing the selections made by the retired persons. Similar information was obtained from the persons who offer Medigap and Long-term Care Insurance coverages for older people. Each interview was begun by using the appropriate questionnaire from Appendix A.

DATA COLLECTION

Data collection was an on going process for the entire length of this study. Information obtained during the interviews with the various financial advisors was accumulated and reviewed prior to each interview with a retired person. The data gathered from the retired person was

absorbed and evaluated based upon the information obtained from the financial planners. Each of the aforementioned hypothesis was evaluated for each of the retired persons as to income from current assets and health insurance in force.

LIMITATIONS

This study gathered data on a socioeconomic group that is probably more prosperous than the general population, therefore, the results may not be generally indicative of the entire population. In addition, all subjects live in a large urban area and may produce results that are different than those which might be obtained in a different setting. Another limitation in this study is the fact that financial history may not be indicative of future financial events and status. It is possible that financial markets may change abruptly causing unanticipated turmoil.

Section IV

Interview Results

LONG-TERM CARE INSURANCE

Three financial planners who offer long-term care insurance were interviewed regarding their recommendation for a 65 year old retired person. Each financial planner was asked to recommend a plan of long-term care insurance for a person with average income, with very high income, and a person with very limited income. Each financial planner wanted to have a description of income and net worth in order to accurately recommend a program. Accordingly, for purposes of getting information we determined that a person with average income of $2,000 a month would have an average net worth somewhere in the neighborhood of $300,000 to $400,000, the person with high income of $3,500 a month would have a net worth of more than $750,000, and the limited income of less than $1,200 per month person would have a net worth of $50,000 or less.

Each financial planner recommended that the person with average income obtain a long-term care insurance policy that would pay $100 per day when confined to a long-term care facility. Two of the three

recommended a three year benefit, whereas the third one recommended a lifetime benefit. There was a general disagreement amongst the financial planners over the purchase of benefits for home health care and as to whether a cost of living adjustment rider should be included. In any event, the premiums for our 65 year old person of average income would range from $900 to $1,200 per year, depending on the benefits selected, according to the rates furnished by the financial planners.

For the person with a high retirement income, each of the financial planners recommended a lifetime benefit, with two of them recommending the same $100 per day benefit and the third person recommending a $150 per day benefit for the high income person, simply because he felt that the high income person might travel and end up in a long-term care facility in a location that is more expensive than Omaha. In any event, for the high income individual, all of the financial planners recommended that the plan include more comprehensive coverage which would increase the average cost to $1,800 to $2,000 per year.

For the person with very limited income and few assets, there was a general disagreement amongst the financial planners. The first one recommending that no coverage be purchased and that they simply face the fact that it would be necessary to spend down assets in order to

qualify for Medicaid if a catastrophic sickness or accident should occur. The second planner suggested that perhaps a smaller nursing home benefit, possibly a $400 or $500 per month be selected. The third financial planner suggested that the person with few assets and very limited income should purchase a policy which would provide home care benefits only, at a cost of $600 to $700 per year. Furthermore, this financial planner recommended that the person be prepared to spend down in order to qualify for Medicaid if confinement in a long-term care facility was necessary.

MEDIGAP INSURANCE

The same three financial planners who interviewed for the long-term care insurance were also interviewed regarding Medigap insurance. As a general rule there are 10 standard plans available to supplement Medicare. Appendix B contains a brief description of these 10 standard plans.

According to the financial planners the most popular Medigap Insurance is Plan F. Two of the financial planners recommended Plan F for the person with average retirement income and one financial planner instead suggested Plan C. For the high income individual as previously

described, one advisor suggested Plan C, another Plan F, and another Plan H, I, or J, depending on whether or not the individual was taking prescription drugs.

There were also different answers when the advisors were asked to recommend a plan for the retired person with very limited income. Two suggested that the person with limited income enroll in an HMO which provides broad Medigap benefits without paying any premium. The only disadvantage in enrolling in the HMO program, they pointed out, is that it is critical to use the HMO physicians and health care facilities. Even while traveling, an HMO requires that non-emergency care be obtained through the HMO because of the cost advantage. The third financial advisor suggested Medigap supplemental Plan C for the person with limited income or possibly Plan B if the person's income was so limited that it was not possible to purchase a more expensive plan.

The financial planners indicated that Medigap insurance is not as expensive as long-term care insurance, even though it fills a need that is more likely to be used frequently throughout one's lifetime. The financial planners quoted rates for Medigap insurance which varied from approximately $750 per year for Plan C to slightly over $1,000 per year for Plan F for a person aged 65. The cost for the most expensive plans,

H, I, and J, varied between $1,700 and $2,000 per year per person, according to the financial planners.

The availability of Long-term Care Insurance and Medigap Insurance clearly demonstrates that health insurance which will provide lifetime security for a retiree and spouse is readily available.

INVESTMENT STRATEGIES

Persons interviewed for this section included trust officers and investment bankers who currently handle retirement funds for a variety of individuals from the very wealthy to the modest investments of a 401(k) plan or an individual IRA plan. The variety of investments mentioned were virtually all of the investment vehicles in the marketplace. The recommended investment vehicles for retirement funds generally varied between equity and fixed income portfolios, with one minor suggestion for a real estate investment trust. According to the investment banker who recommended the real estate investment trust, the returns are similar to a fixed income portfolio.

Each trust officer or investment banker felt that they could not make any recommendation unless they had some idea as to the net worth of a person age 65 who is about to retire. Therefore, for purposes

of obtaining information, an example was used of an individual who had $300,000 in a 401K account from which an income was desired. This person also was essentially free of debt and lived in a home without a mortgage. The individual would also have Social Security income.

Investment officer number one recommended that 40% of the funds be invested in Equity Securities and 60% in Fixed Income Securities. He felt that the Equity Securities Investment would give some opportunity for growth while at the same time the Fixed Income Securities would provide a secure income. When I asked this investment officer what the disposition of the money would be if it was his own personally, the answer was 30% Equity Securities and 70% Fixed Income under the current market conditions. He mentioned that his suggestion of a majority of the funds being invested in Fixed Income Investments was because of his conservative investment philosophy.

Investment officer number two said that he would recommend that the individual invest 50% in Equity Securities and 50% in High Grade Fixed Income Securities because of the balance that would give the portfolio. He would also do exactly the same thing if it were his own account.

Investment officer number three said that he would recommend 50% Equity Investments, 25% Real Estate Investment Trust, and 25% Fixed Income Securities. He explained his reasoning by saying that the Equity Investments and the Real Estate Investment Trust would have some possibility of growth while the fixed income securities would add an element of safety. He also said he would do exactly the same if it were his own account.

Investment officer number four said that he would recommend 50% Equity Investments and 50% Fixed Income Investments for the example cited because he felt that this balance for the portfolio would provide an element of safety. He also mentioned, he was optimistic regarding our economy and accordingly, he would invest his own money only in Equity Investments.

A variety of information was obtained from these investment officers on investments available through their various institutions. For analysis purposes, the financial results from two of the banking institutions are included because they clearly demonstrate the differences of investments placed in Fixed Income or Equity Accounts.

Two periods of time are shown on the enclosed four Tables which reflect annual investment returns and monthly income for a retired

person. In order to conserve the principle amount while paying a monthly income, these four Tables were designed with the idea of paying an income of 6% per year taken at the rate of ½ of 1% on the last day of each month. The beginning balance on January 1st determines the monthly income for the next twelve months. For each Table, a beginning balance of $100,000 was used because multiples of this amount are easily calculated.

TABLE 1

FIXED INCOME - BANK A

	Beginning Balance	Monthly Income	Annual Investment Return %	$	Ending
1/1/72	$100,000.00	$500.00	2.30%	$2,231.00	$96,231.00
1/1/73	$96,231.00	$481.16	-2.80%	($2,613.63)	$87,843.51
1/1/74	$87,843.51	$439.22	1.70%	$1,448.54	$84,021.44
1/1/75	$84,021.44	$420.11	13.90%	$11,328.61	$90,308.76
1/1/76	$90,308.76	$451.54	16.10%	$14,103.52	$98,993.75
1/1/77	$98,993.75	$494.97	8.40%	$8,066.01	$101,120.14
1/1/78	$101,120.14	$505.60	1.10%	$1,078.95	$96,131.88
1/1/79	$96,131.88	$480.66	-3.30%	($3,077.18)	$87,286.79
1/1/80	$87,286.79	$436.43	0.00%	$0.00	$82,049.58
1/1/81	$82,049.58	$410.25	0.80%	$636.70	$77,763.31
1/1/82	$77,763.31	$388.82	34.80%	$26,249.78	$99,347.29
1/1/83	$99,347.29	$496.74	9.50%	$9,154.85	$102,541.31
1/1/84	$102,541.31	$512.71	11.60%	$11,537.95	$107,926.78
1/1/85	$107,926.78	$539.63	19.00%	$19,890.91	$121,342.08
1/1/86	$121,342.08	$606.71	20.30%	$23,893.47	$137,955.02
1/1/87	$137,955.02	$689.78	1.50%	$2,007.25	$131,684.97
1/1/88	$131,684.97	$658.42	7.60%	$9,707.82	$133,491.68
1/1/89	$133,491.68	$667.46	14.70%	$19,034.58	$144,516.76
1/1/90	$144,516.76	$722.58	8.20%	$11,494.86	$147,340.62
1/1/91	$147,340.62	$736.70	15.80%	$22,581.42	$161,081.61
1/1/92	$161,081.61	$805.41	7.30%	$11,406.19	$162,822.90
1/1/93	$162,822.90	$814.11	10.20%	$16,109.70	$169,163.22
1/1/94	$169,163.22	$845.82	-3.20%	($5,250.83)	$153,762.60
1/1/95	$153,762.60	$768.81	19.10%	$28,487.60	$173,024.44
1/1/96	$173,024.44	$865.12	2.70%	$4,531.51	$167,174.49
1/1/97	$167,174.49	$835.87	8.00%	$12,972.74	$170,116.76
1/1/98	$170,116.76	$850.58			

TABLE 2

EQUITY - BANK A

	Beginning Balance	Monthly Income	Annual Investment Return %	Annual Investment Return $	Ending Balance
1/1/72	$100,000.00	$500.00	16.10%	$15,617.00	$109,617.00
1/1/73	$109,617.00	$548.09	-18.10%	($19,245.46)	$83,794.52
1/1/74	$83,794.52	$418.97	-29.80%	($24,221.64)	$54,545.21
1/1/75	$54,545.21	$272.73	32.40%	$17,142.47	$68,414.96
1/1/76	$68,414.96	$342.07	20.30%	$13,471.59	$77,781.65
1/1/77	$77,781.65	$388.91	1.70%	$1,282.62	$74,397.37
1/1/78	$74,397.37	$371.99	9.40%	$6,783.55	$76,717.09
1/1/79	$76,717.09	$383.59	19.20%	$14,287.79	$86,401.85
1/1/80	$86,401.85	$432.01	27.90%	$23,382.93	$104,600.67
1/1/81	$104,600.67	$523.00	8.00%	$8,117.01	$106,441.64
1/1/82	$106,441.64	$532.21	21.90%	$22,611.40	$122,666.54
1/1/83	$122,666.54	$613.33	29.10%	$34,625.09	$149,931.64
1/1/84	$149,931.64	$749.66	11.30%	$16,434.01	$157,369.74
1/1/85	$157,369.74	$786.85	25.20%	$38,467.46	$186,395.02
1/1/86	$186,395.02	$931.98	30.80%	$55,687.38	$230,898.69
1/1/87	$230,898.69	$1,154.49	6.10%	$13,662.28	$230,707.05
1/1/88	$230,707.05	$1,153.54	16.70%	$37,372.23	$254,236.86
1/1/89	$254,236.86	$1,271.18	25.90%	$63,871.93	$302,854.58
1/1/90	$302,854.58	$1,514.27	0.20%	$587.54	$285,270.84
1/1/91	$285,270.84	$1,426.35	27.20%	$75,265.86	$343,420.45
1/1/92	$343,420.45	$1,717.10	8.90%	$29,647.49	$352,462.71
1/1/93	$352,462.71	$1,762.31	11.80%	$40,342.88	$371,657.83
1/1/94	$371,657.83	$1,858.29	8.50%	$30,643.19	$380,001.54
1/1/95	$380,001.54	$1,900.01	28.20%	$103,945.62	$461,147.07
1/1/96	$461,147.07	$2,305.74	17.00%	$76,043.15	$509,521.40
1/1/97	$509,521.40	$2,547.61	20.30%	$100,329.86	$579,279.98
1/1/98	$579,279.98	$2,896.40			

Tables 1 and 2 reflect investment results from Bank A from January 1, 1972 through the end of 1997. This period of time was used because it demonstrates financial results during a down market and during an up market. Table 1 reflects investment results of a fixed income portfolio while Table 2 reflects investment results from an Equity

Portfolio. Please note that in the down market of 1974 and 1975, the monthly income dropped below the beginning monthly income because of bad market conditions. It is interesting to note that in both cases, the market recovered and the monthly income was restored to an even higher balance than the original monthly income.

TABLE 3

FIXED INCOME - BANK B

	Beginning Balance	Monthly Income	Annual Investment Return %	Annual Investment Return $	Ending Balance
1/1/79	$100,000.00	$500.00	0.40%	$388.00	$94,388.00
1/1/80	$94,388.00	$471.94	0.90%	$824.01	$89,548.73
1/1/81	$89,548.73	$447.74	3.00%	$2,605.87	$86,781.67
1/1/82	$86,781.67	$433.91	34.20%	$28,788.95	$110,363.72
1/1/83	$110,363.72	$551.82	11.20%	$11,989.91	$115,731.81
1/1/84	$115,731.81	$578.66	13.90%	$15,604.12	$124,392.03
1/1/85	$124,392.03	$621.96	21.30%	$25,700.64	$142,629.14
1/1/86	$142,629.14	$713.15	14.20%	$19,645.74	$153,717.13
1/1/87	$153,717.13	$768.59	2.30%	$3,429.43	$147,923.53
1/1/88	$147,923.53	$739.62	7.10%	$10,187.49	$149,235.61
1/1/89	$149,235.61	$746.18	12.40%	$17,950.06	$158,231.54
1/1/90	$158,231.54	$791.16	9.30%	$14,274.07	$163,011.71
1/1/91	$163,011.71	$815.06	15.10%	$23,876.33	$177,107.33
1/1/92	$177,107.33	$885.54	7.00%	$12,025.59	$178,506.48
1/1/93	$178,506.48	$892.53	9.90%	$17,141.98	$184,938.07
1/1/94	$184,938.07	$924.69	5.00%	$8,969.50	$182,811.28
1/1/95	$182,811.28	$914.06	18.20%	$32,273.50	$204,116.11
1/1/96	$204,116.11	$1,020.58	2.60%	$5,147.81	$197,016.95
1/1/97	$197,016.95	$985.08	10.30%	$19,683.96	$204,879.90
1/1/98	$204,879.90	$1,024.40			

TABLE 4

EQUITY - BANK B

	Beginning Balance	Monthly Income	Annual Investment Return %	Annual Investment Return $	Ending Balance
1/1/79	$100,000.00	$500.00	15.30%	$14,841.00	$108,841.00
1/1/80	$108,841.00	$544.21	28.70%	$30,300.25	$132,610.79
1/1/81	$132,610.79	$663.05	2.30%	$2,958.55	$127,612.69
1/1/82	$127,612.69	$638.06	29.00%	$35,897.45	$155,853.37
1/1/83	$155,853.37	$779.27	22.10%	$33,410.29	$179,912.46
1/1/84	$179,912.46	$899.56	3.10%	$5,409.97	$174,527.68
1/1/85	$174,527.68	$872.64	35.90%	$60,775.77	$224,831.79
1/1/86	$224,831.79	$1,124.16	24.20%	$52,777.01	$264,118.90
1/1/87	$264,118.90	$1,320.59	3.10%	$7,942.06	$256,213.82
1/1/88	$256,213.82	$1,281.07	12.50%	$31,065.93	$271,906.92
1/1/89	$271,906.92	$1,359.53	29.90%	$78,861.16	$334,453.66
1/1/90	$334,453.66	$1,672.27	0.60%	$1,946.52	$316,332.96
1/1/91	$316,332.96	$1,581.66	29.10%	$89,291.31	$386,644.29
1/1/92	$386,644.29	$1,933.22	6.30%	$23,627.83	$387,073.47
1/1/93	$387,073.47	$1,935.37	9.20%	$34,542.44	$398,391.50
1/1/94	$398,391.50	$1,991.96	4.90%	$18,935.55	$393,423.55
1/1/95	$393,423.55	$1,967.12	39.40%	$150,358.61	$520,176.75
1/1/96	$520,176.75	$2,600.88	22.10%	$111,510.29	$600,476.44
1/1/97	$600,476.44	$3,002.38	28.80%	$167,749.10	$732,196.95
1/1/98	$732,196.95	$3,660.98			

Tables 3 and 4 refer to investment returns from the Trust Department of a different bank for a person who retired on January 1, 1979. This particular bank could not furnish financial results for any period prior to that date. The Fixed Income portfolio of Table 3 had a dip in income for a few years beginning in the second year because of adverse market conditions for a Fixed Income portfolio. The Equity portfolio represented by Table 4 paid a higher monthly income for all of the years subsequent to the first year.

It is interesting to note that whether a person elected an Equity portfolio or Fixed Income portfolio, the fluctuation in income over a period of years could cause hardship for a person on a tight budget. If the person on a tight budget did not have savings set aside for such an event, the person could still draw funds from the principal amount of their original investment.

The aforementioned information clearly indicates that Hypothesis I is accurate.

RETIREE INTERVIEWS

The interviews with five retired persons were most interesting. Retiree number one was a widower who retired from a position as a property manager for the State of Nebraska within the past two years. He was an acquaintance of a real estate agent who is a friend of mine and apparently worked in the real estate field a few years ago. Over the years he had managed to accumulate a fair amount of savings which he keeps in Certificates of Deposit with a local bank. All of his retirement moneys from the State of Nebraska were taken in a lump sum and transferred to an IRA account with a local investment banking firm. One hundred percent of the funds are invested in an equity account. He

draws 5% per year from the investment account which supplements his Social Security Income. He feels completely comfortable financially. When he reached age 65, he purchased Medigap Insurance using Plan F from a local insurance company. He does not carry Long-term Care Insurance and does not feel it is necessary because no one in his family nor any acquaintance has ever suffered a debilitating accident or illness that required confinement in any sort of a continuing care facility. Accordingly, he feels he will probably never need such insurance.

Retiree number two spent his career as an officer for the Teamsters Union. His main duties consisted of organizing and recruiting members for the union. He is a golfing companion of retiree number one who introduced us. In addition to Social Security income, he also draws income from two defined-benefit plans that are controlled by the Union. His retirement income, including Social Security, exceeds the income that he drew just prior to his 1995 retirement. The Union also provides health insurance under the same group plan that covered him during his working years. He makes only a modest contribution towards this group insurance plan which supplements Medicare. He has very little out-of-pocket medical expenses. He confesses to a certain curiosity about Long-term Care Insurance but does not feel motivated to consider it at this

time. He is a life-long bachelor with considerable savings and a generous income. He feels that he could afford to pay for the cost of long term care if he is in need of such services.

Retiree three attends the same church as I do but I had not met him until we worked together briefly on fund raising project in 1997. He spent his career in Financial Planning, working mostly in the estate planning area. Retiree three had a defined contribution retirement plan which was taken in a lump sum at retirement. In addition, he was paid a substantial amount of money for ownership of company stock. One hundred percent of these funds were invested with the Trust Department of a local bank. He chose to allocate the funds on the basis of 65% in equity investments and 35% in fixed income investment. He indicated that he had considered putting 100% of the funds in equity investments but decided that 35% in fixed income investments would provide a safety cushion in case the stock market deteriorated. When retiree three originally retired in 1993, he took an income of 6% each year. Because the value of the funds had increased substantially, he reduced the annual income to 5% of the available funds two years ago. He carries Plan F of Medicare on himself and his spouse at a cost of $93.50 per month each. He felt that Plan F was the ideal plan because of the

moderate cost and adequate benefits to supplement Medicare. He does not carry Long-term Care Insurance for either he or his wife, even though, he is acutely aware of this product and explored the purchase of same but determined it wasn't critical to his financial security.

Retiree four held a clerical position at a local university until retiring at age 62 in 1989. She was the widow of an employee of a firm that provides services to my company. She indicated that 100% of her tax sheltered annuity program was invested in a fixed income portfolio from the Teachers Insurance and Annuity Association (TIAA). Many years ago she and her husband had lost some money investing in Mutual Funds and she did not feel secure making an investment in the equity market. Her late husband's profit sharing plan was transferred to an Annuity policy from which she draws a minimum income. Her income has fluctuated slightly over the years and has also been enhanced by Social Security benefits. She feels she has a comfortable income but has also been fortunate to inherit a fair amount of money five years ago when her mother died. Without the inheritance, she feels like she would be financial strapped. Her prior employer continues to provide health insurance to supplement Medicare. She pays a portion of the premium for this insurance. She has given no thought to Long-term Care

Insurance and has no interest in exploring the possibility mostly because she has a certain distrust of the insurance industry.

Retiree five was an executive with a large insurance company retiring at age 63 in 1996. His company provided a defined-benefit pension plan which continues to pay him approximately 60% of the salary that he earned during the last five years that he was employed. He also was provided with a 401K plan from which he has drawn no benefits and he indicated that he also had a substantial amount of savings. All of the latter funds are invested in Equity Securities because he feels that in the long run, the value increase will be greater than it would be with Fixed Income Securities. He also feels that he is able to withstand any market fluctuation because of his pension plan income. Health insurance is provided by his former employer which was converted to a Medicare Supplement when he reached age 65. His former employer pays the full cost of this supplemental coverage for him and his spouse. Retiree number five had a mother-in-law who spent seven years in a long-term care facility before she died. Accordingly, he has a strong belief in Long-term Care Insurance and carries it on both himself and his spouse at a cost of $90 per month for each of them. They carry a benefit of $100 per day which will pay for a lifetime if either

he or his wife is confined to a long-term care facility. It is interesting to note that this particular retiree is financially secure but because of his skill, he continues to be active in a number of well-paying consulting positions. He does this by choice simply because he enjoys working.

All of these retirees felt financially secure. All appeared to be healthy and stated that they were involved in a number of activities outside of the home. These activities included social clubs, community involvement, and exercise programs. These retirees seem to prove Hypothesis I and Hypothesis II in that their accumulated assets provide adequate retirement income which is transferable to a spouse or to a later generation. They also had each purchased health insurance that they felt was adequate for their lifetime. The only one working for income was retiree number five, while the rest were all comfortably financially without working for pay anywhere.

Section V

Recommendations

The purpose of this study was to make an evaluation of methods to provide financial stability as a person ages. The emphasis was on retirement years and included not only investment vehicles for a retirement fund but also an evaluation of health insurance products. This information should help test the hypotheses outlined in Section I.

LONG-TERM CARE INSURANCE

Long-term Care Insurance is a valuable insurance product that has not yet matured in the market place. The history of Long-term Care Insurance is less than 20 years and it is not widely carried, although, it is offered to large groups on a voluntary basis. A wealthy person does not need Long-term Care Insurance because they are able to afford confinement in a long-term care facility without benefit of insurance. On the other hand, poor people will have very little difficulty qualifying under Medicaid for long-term care benefits. It seems obvious that neither of these groups should even consider Long-term Care Insurance.

For persons who do not fall in either category, Long-term Care Insurance may be the only sensible solution to funding confinement in a long-term care facility. As pointed out earlier in this thesis, the elderly are becoming disabled later and less often than they were ten years ago. Technology also provides more help for the partially disabled older person and this technology and home health care allows people to live out their lives in their own home.

It seems to me that the Long-term Care Insurance industry will mature sometime in the future. At the present time, the rates quoted by the financial planners could produce a hardship when paid from the retirement income of middle class Americans. Generally, I would recommend against purchase of Long-term Care Insurance unless coverage is purchased at a young age through an employer at a minimal cost or unless the individual would not feel financially secure without the insurance.

MEDIGAP INSURANCE

According to Walker (1997), Part A of Medicare automatically covers persons who are eligible for Social Security or Railroad Retirement Benefits. Part B is a voluntary program but Walker (1997) points out

that the majority of eligible people do purchase it because it is a good buy. If a person's former employer does not provide health insurance for retired employees and spouses, many people will want to consider purchase of a Medigap policy or enrollment in an HMO. In my opinion, an HMO should only be considered if a person is going to continuously live in the area serviced by the HMO and the panel of physicians and medical care facilities available are satisfactory.

Appendix B lists the various Medigap policies that are available. The basic plan is Plan A. It provides sufficient coverage for a person who can afford some out-of-pocket expenses. Plan F is the most popular plan because it pays for most of the out-of-pocket expenses that a person would have for hospital and physician's expenses in the United States. Plan J provides the most comprehensive coverage, including a benefit for prescription drugs. Once a plan is decided upon, it should be carefully shopped among various insurance companies because of the range of prices that are available. One should also be careful to pick an insurance company that has a strong financial rating. According to our financial planners, enrollment in a Medigap policy is available without answering health questions if a person applies at the time they are first eligible for Medicare.

INVESTMENT STRATEGY

The investment bankers and trust officers that were interviewed all recommended some sort of combination of equity and or fixed income investments. These persons are professionals whose work life is devoted to the prudent investment of money. I would simply recommend that a person consider using the services of a professional investment advisor whether a trust officer, investment banker, or a mutual fund. In my opinion a careful perusal of Tables 1 through 4 indicate the value of investing in the equity market. The tables also detail how income is affected during market fluctuations. If a person can withstand the possible fluctuations in income, then I would suggest that the majority of funds available for retirement be invested in the equity market.

CONCLUSION

For the average person who has assets accumulated in a retirement plan, lifetime financial security should be easily achieved, if the assets are invested wisely. It is interesting to note, that Tables 1 through 4 demonstrate that the original money invested continues to grow even though an income is continuously paid out to the retired person. Because of this growth of the money during the retirement

years, financial security is provided for a widowed spouse of the retired person. Assuming continuing growth of the invested money, assets will be available for a future generation. Thus Hypothesis I has been proven.

If employer sponsored group health insurance is not available once a person becomes eligible for Medicare, then a Medigap or HMO policy, according to our financial advisors, will provide the financial security needed to cover medical expenses. When a person first becomes eligible for Medicare, they are also able to purchase Medigap and HMO insurance regardless of their health conditions. Accordingly, Medigap and HMO insurance is available to all persons who become eligible for Medicare. It proves the Hypothesis II as stated in the first section of this thesis.

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Appendix A

Questionnaires Used to Start Interviews

Sample Questionnaire for Financial Advisor on Long Term Care Insurance

1. Would you recommend long term care insurance for a retired person with average income? If so, what plan would you recommend?

2. What plan would you recommend for a person with a very high retirement income and substantial savings?

3. Would you recommend a plan for someone who had a very limited income and few, if any, assets?

Questions for Financial Advisor in the Area of Medicare Supplemental Insurance

1. Assuming that a person has average retirement income which Medicare Supplement Program would you recommend, if any?

2. Would you recommend a different program if the retired person is quite wealthy?

3. What would your recommendation be for someone who has very limited income during their retirement years?

Sample Questionnaire for Investment Officers

1. Do you recommend investments for persons who have retirement savings?

2. What investment vehicles are available through your institution?

3. If you have a fixed income portfolio, what have the returns been for the last 25 years?

4. Do you have an equity or common stock fund(s) available and if so what have the returns been over the last 25 years?

5. Do you have a bond fund available and what have the returns been over the past 25 years?

6. Assuming that a person came to you with $200,000 in 1980 and wanted to withdraw .05% per month with the portfolio being re-valued each January 1st with the new amount being paid February 1st through January 1st each year, how much money would be in the fund today and what would the monthly income have been during those years?

Sample Questionnaire for Retirees

1. Assuming that your retirement plan was arranged by your employer, what type of plan did you have?

   A) A plan with a fixed income based on earnings during working years.

   B) A money purchase plan where funds were accumulated but the investment decisions and pay out methods are determined by you.

2. Tell me what methods you used.

3. What have you done about health insurance?

4. Have you considered carrying long term care insurance? If so, do you now carry long term care insurance? Tell me about it.

Appendix B

Standard Medigap Plans

Following is a list of the 10 standard plans and the benefits provided by each:

PLAN A (the basic policy) consists of these basic benefits:

- Coverage for the Part A coinsurance amount ($190 per day in 1997) for the 61st through the 90th day of hospitalization in each Medicare benefit period.
- Coverage for the Part A coinsurance amount ($380 per day in 1997) for each of Medicare's 60 non-renewable lifetime hospital inpatient reserve days used.
- After all Medicare hospital benefits are exhausted, coverage for 100% of the Medicare Part A eligible hospital expenses. Coverage is limited to a maximum of 365 days of additional inpatient hospital care during the policyholder's lifetime. This benefit is paid either at the rate Medicare pays hospitals under its Prospective Payment System (PPS) or under another appropriate standard of payment for hospitals not subject to the PPS.
- Coverage under Medicare Parts A and B for the reasonable cost of the first 3 pints of blood or equivalent quantities of packed red blood cells per calendar year unless replaced in accordance with federal regulations.
- Coverage for the coinsurance amount for Part B services (generally 20% of approved amount; 50% of approved charges for outpatient mental health services) after $100 annual deductible is met.

PLAN B includes the basic benefit plus:

- Coverage for the Medicare Part A inpatient hospital deductible ($760 per benefit period in 1997).

PLAN C includes the basic benefit plus:

- Coverage for the Medicare Part A deductible.
- Coverage for the skilled nursing facility care coinsurance amount ($95 per day for days 21 through 100 per benefit period in 1997).
- Coverage for the Medicare Part B deductible ($100 per calendar year in 1997).
- 80% coverage for medically necessary emergency care in a foreign country, after a $250 deductible.

PLAN D includes the basic benefit plus:

- Coverage for the Medicare Part A deductible.
- Coverage for the skilled nursing facility care daily coinsurance amount.
- 80% coverage for medically necessary emergency care in a foreign country, after a $250 deductible.
- Coverage for at home recovery. The at home recovery benefit pays up to $1,600 per year for short-term, at home assistance with activities of daily living (bathing, dressing, personal hygiene, etc.) for those recovering from an illness, injury or surgery. There are various benefit requirements and limitations (see page15).

PLAN E includes the basic benefit plus:

- Coverage for the Medicare Part A deductible.
- Coverage for the skilled nursing facility care daily coinsurance amount.
- 80% coverage for medically necessary emergency care in a foreign country, after a $250 deductible.
- Coverage for preventive medical care. The preventive medical care benefit pays up to $120 per year for such things as a physical examination, serum cholesterol screening, hearing test, diabetes screenings, and thyroid function test.

PLAN F includes the basic benefit plus:

- Coverage for the Medicare Part A deductible.
- Coverage for the skilled nursing facility care daily coinsurance amount.
- Coverage for the Medicare Part B deductible.
- 80% coverage for medically necessary emergency care in a foreign country, after a $250 deductible.
- Coverage for 100% of Medicare Part B excess charges.*

PLAN G includes the basic benefit plus:

- Coverage for the Medicare Part A deductible.
- Coverage for the skilled nursing facility care daily coinsurance amount.
- Coverage for 80% of Medicare Part B excess charges.*
- 80% coverage for medically necessary emergency care in a foreign country, after a $250 deductible.
- Coverage for at home recovery (see Plan D).

PLAN H includes the basic benefit plus:

- Coverage for the Medicare Part A deductible.
- Coverage for the skilled nursing facility care daily coinsurance amount.
- 80% coverage for medically necessary emergency care in a foreign country, after a $250 deductible.
- Coverage for 50% of the cost of prescription drugs up to a maximum annual benefit of $1,250 after the policyholder meets a $250 per year deductible (this is called the "basic" prescription drug benefit).

PLAN I includes the basic benefit plus:

- Coverage for the Medicare Part A deductible.
- Coverage for the skilled nursing facility care daily coinsurance amount.
- Coverage for 100% of Medicare Part B excess charges.*
- Basic prescription drug coverage (see Plan H for description).
- 80% coverage for medically necessary emergency care in a foreign country, after a $250 deductible.
- Coverage for at home recovery (see Plan D).

PLAN J includes the basic benefit plus:

- Coverage for the Medicare Part A deductible.
- Coverage for the skilled nursing facility care daily coinsurance amount.
- Coverage for the Medicare Part B deductible.
- Coverage for 100% of Medicare Part B excess charges.*
- 80% coverage for medically necessary emergency care in a foreign country, after a $250 deductible.
- Coverage for preventive medical care (see Plan E).
- Coverage for at home recovery (see Plan D).
- Coverage for 50% of the cost of prescription drugs up to a maximum annual benefit of $3,000 after the policyholder meets a $250 per year deductible (this is called the "extended" drug benefit).

* Plan pays a specified percentage of the difference between Medicare's approved amount for Part B services and the actual charges (up to the amount of charge limitations set by either Medicare or state law).

Information from: 1997 Guide to Health Insurance for People with Medicare by
National Association of Insurance Commissioners &
Health Care Financing Administration of the U.S. Department of Health & Human Services