Advisers ducking crucial retirement issue: MIT prof

Financial advisers 'hide under the table' when clients ask about future health care costs, says Coughlin; guessing game

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Misconceptions abound when it comes to incorporating health care expense assumptions into retirement planning.

Working Americans appear to be unaware that health care is the largest cost they'll be facing in retirement. What's more, financial advisers have been having a difficult time getting their arms around retiree medical costs.

“The number one thing that most consumers want to talk about in retirement is health care, where promptly financial advisers hide under the table because there's very little information to guide them,” said Joseph F. Coughlin, director of AgeLab at the Massachusetts Institute of Technology. He was a panelist at a **Putnam Investments** event in New York City on Wednesday, covering health care in retirement.

Part of the problem is getting savers to envision what those costs might be while they're still socking money away in their working years.

A study of nearly 4,000 working adults under age 65 showed that close to 70% of the participants have little to no confidence that they know how much they need for health care in retirement. Brightwork Partners LLC and Putnam teamed up to conduct the study.

Further, only 12% of all the participants said that they had a written, formal financial plan that factored in health care costs that aren't covered by insurance.

Saving for medical costs for their retirement could require investors to scrape together even more money. For instance, a healthy 65-year-old male who wants to spend $100,000 annually in retirement and still have enough to foot health care expenses will have to save more than $2 million.

While the long-term totals are lower for a man of the same age with cancer ($1.5 million) or Type II diabetes ($1.34 million) due to lower life expectancies, medical costs are initially higher for chronically ill people, according to W. Van Harlow, director of investment retirement solutions at Putnam.

The moral for advisers is that they should encourage savers to begin thinking about post-retirement health care expenses while they're still working and saving. Putnam is now incorporating personalized monthly health care cost projections into its Lifetime Income Analysis Tool, which is available to the companies that use Putnam as a retirement plan record keeper.

Individuals who are saving with the goal of replacing 100% of their income are undershooting the mark, experts contend.

“When you add health care, your target [income replacement rate] may be 123%, as opposed to 100%,” said Dallas Salisbury, president of the Employee Benefit Research Institute and panelist at the Putnam event. “If you want the capacity for risk of long-term care, you might need the equivalent of 140% replacement. It's not that you'll spend that cushion, but you'll be putting it away to meet future health care and long-term care expenses.”