CALAMOS
WEALTH
MANAGEMENT

FAMILY MATTERS

Insights on key topics—
through a multi-generational lens.

TOPIC:

THE FINANCIAL REALITIES OF LIVING LONGER

In terms of financial math, life expectancy is among the most significant variables in retirement planning.

As people live longer, expectations about both saving and spending need to change, too. How do you address the risk of running out of money in retirement? Is it realistic to plan to work well past normal retirement age? This installment of Family Matters addresses those and other concerns relating to living longer.

We created the *Family Matters* insight series to spark ideas and spur conversation among family members on a wide range of important financial topics. They're purposely written as a primer for more in-depth discussions with your Calamos Wealth Management advisor on how the matters presented will apply to you and your family's unique situation. We hope you find that the multi-generational lens by which topics are presented promotes pass-along readership to multiple family members. Your Calamos Wealth Management advisor is available to all members of your family to provide guidance on matters you care about most.

David and Barbara Katz have planned and looked forward to retirement for years—but never expected it would come this soon. Until last month, David, 61, was an insurance executive anticipating four more years at the firm he'd served for 25 years. Then a corporate merger led to a restructuring…and a severance package.

The package was generous—a full year of his $200,000 salary—but that nonetheless meant three years of anticipated pay foregone. Still, David embraced "early retirement" with characteristic positivity, quickly getting involved as a volunteer with a youth financial literacy group and the local botanical garden.

David suggested Barbara, 57, retire too, so they can together ramp up their travel schedule—both to see more of their grandkids on the opposite coast and to finally take that 28-day Pacific cruise.

But Barbara loves her work as executive director of a community orchestra—and has just kicked off an ambitious five-year growth plan. Also, despite their $2 million nest egg in two IRAs, David and Barbara aren't sure the loss of her $70,000 salary—and healthcare benefits—is financially sustainable.

The shifting math of retirement dates

"Early retirement is more common than most people presume—and often neither expected nor particular desired," says Stephen Perl, CIMA®, Vice President and Senior Wealth Advisor at Calamos Wealth Management. "Too often people presume that if they get behind in savings they can make it up by working a few years longer. Unfortunately, that may not be possible."

Data from a **recent Morningstar retirement study** bears this out. Working from University of Michigan Health and Retirement Study data, Morningstar found that people who anticipate working later than age 63 tend to work fewer years than they expect.

And as people live longer, retirement years are lengthening as well. **According the U.S. Census Bureau,** the average retirement length is 18 years, starting from a typical retirement age of 63. But that's only an average. There's every reason—and a critical need—to plan for a retirement that lasts far longer. "We typically model out to age 95 as a starting point," says Mark Rabinovich, Wealth Planning Consultant.

Modeling retirement cash flows

Besides David and Barbara's suddenly mismatched schedules, there's also the satisfying but stressful downsizing project now underway—from their house in the far suburbs to a townhouse downtown. Despite a smaller space, the townhouse isn't any less expensive than their suburban location.

While housing expenses are likely to stay about the same, healthcare could go much higher should they need to buy coverage on an individual exchange in the event of Barbara's retirement.

So far, David's retirement hobbies aren't expensive, but they do expect to spend more heavily on travel in over the next few years—definitely so once Barbara retires.

"Financially negative events, such as loss of a job or investment capital, are likely to do the most long-term damage if they occur in the last five years before retirement or the first five years after retirement," says Scott Steiner, CFP®, Wealth Planning Consultant.

Steiner says, "I recently spoke with a couple in a similar situation as David and Barbara. Both husband and wife retired early. The size of their nest egg was large enough to meet their needs, but they were startled by the increased expenses they faced after leaving the workforce—in healthcare, especially. People often have a notion that expenses will almost automatically be lower in retirement—70% is a commonly discussed figure—but that isn't always the case. Besides 'unfortunate' expenses, such as higher healthcare costs after leaving work-provided plans, there may be more welcome, lifestyle-related expenses that arise as people engage more fully in hobbies and travel."

In David and Barbara's situation, the loss of three years of his salary (after factoring in severance) is a classic example of an unexpected hit to a retirement plan within that higher-sensitivity 10-year window around the retirement date itself. As that event is beyond David and Barbara's control, the next step is to revisit their plan based on their new situation—including an analysis of whether David's suggestion that Barbara join him in early retirement is financially feasible.

The illustration shown here explores the hypothetical "can Barbara retire" question via two sets of projections:

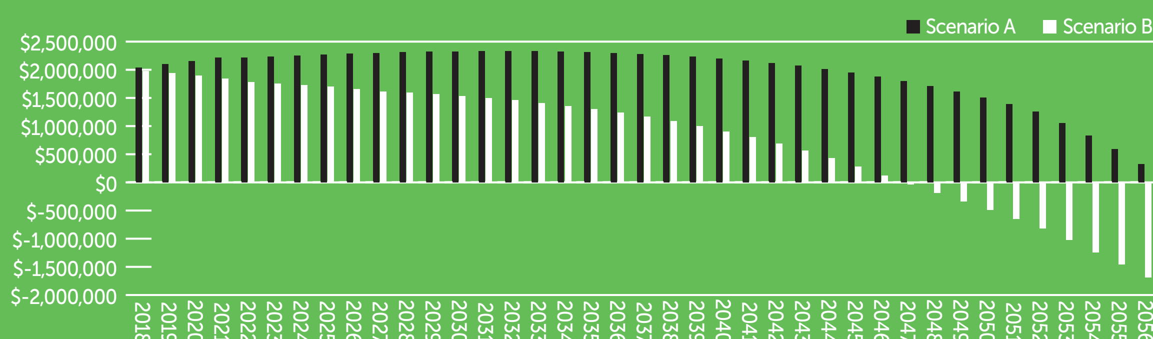
» One in which Barbara continues to work for four more years, from her current age of 57 to 61. While that's younger than she might otherwise retire, it may be a compromise plan—if the numbers work—that can provide David and Barbara with her income for several more years while also maintaining health coverage that can extend to David until he qualifies for Medicare when he reaches age 65.

» A second in which Barbara retires now, forgoing her $70,000 salary and healthcare benefits. (Note: for more on healthcare expenses, see the following section.)

The critical point illustrated in the cash flow analysis occurs in the year 2047. In that year, the scenario of Barbara retiring at 57 to join David shows them having depleted their nest egg to zero at age 90 and 86! This occurs because they walked away from Barbara's salary (and benefits) in the first four years of David's retirement and incurred expenses for healthcare to bridge the gap to when they each qualified for Medicare.

Besides facing the negative concern of running out of money, David and Barbara need to also consider the

Decisions Made in First 4 Years of Retirement Can Create Long-Term Consequences



Scenario A: Barbara postpones retirement for 4 years	
Beginning Nest Egg 2018	$2 Million
David's Retirement	2018 (Age 61)
Barbara's Retirement	2022 (Age 61)
David's Social Security @62	$21,276
Barbara's Social Security @62	$18,012
First Death (David)	2052 (95/91)
Portfolio Rate of Return	5.58%
Barbara Remaining 4-year Annual Salary	$70,000
Retirement Living Expenses	$115,000
Pre-Medicare Healthcare Insurance	$5,000 (Annual)
Inflation Rate	2.41%

Scenario B: Barbara joins David in Retirement	
Beginning Nest Egg 2018	$2 Million
David's Retirement	2018 (Age 61)
Barbara's Retirement	***2018 (Age 57)***
David's Social Security @62	$21,276
Barbara's Social Security @62	$18,012
First Death (David)	2052 (95/91)
Portfolio Rate of Return	5.58%
Barbara Remaining 4-year Annual Salary	***$0***
Retirement Living Expenses	$115,000
Pre-Medicare Healthcare Insurance	***$30,000 (Annual)***
Inflation Rate	2.41%

Source: Emoney Advisor, LLC- a diagnostic tool intended to review your current financial situation and suggest potential planning ideas and concepts that may be of benefit. (Data as of 10/6/2018) positive impact of maintaining Barbara's salary; the future income-earning potential of these assets could generate a surplus available to leave to beneficiaries or establish a charitable legacy.

Note these figures assume a somewhat conservative investment portfolio rate of return relative to historical rates. This recognizes that returns will vary within a 30-year timespan. In a recessionary portion of an economic cycle, money should remain invested rather than selling off key positions to raise capital for living expenses.

These cash flow modeling exercises are essential planning tools. As Perl puts it, "When we start talking with new clients, the conversation revolves around cash flows much more than investment allocations. We model out revenues, expenses, assets, liabilities and more—often for 40 or 50 years, through major life inflection points."

Most people underestimate healthcare costs

"People often underestimate healthcare costs in retirement," says Perl. "Costs can increase dramatically as people grow older—and sometimes it's too late to take action that, if taken earlier, could have significantly reduced overall costs."

In David and Barbara's situation, it's highly significant, from a financial standpoint, that David can join Barbara on her workplace plan rather than having to purchase coverage on an individual exchange.

Scott Steiner says, "I spoke with a couple whose joint premiums, while employed, amounted to $158 per month. Now, in early retirement and buying insurance on the exchanges, they were looking at monthly premiums of $2,500 jointly. People aren't thinking enough about the healthcare factor—we've seen this topic come up again and again."

Goals-based planning in action

Many factors are beyond control—such as David's job loss in the example explored here.

What can be controlled—and should be carefully defined—are goals. Goals may shift as life unfolds, and financial impacts, both expected and unexpected, come to pass. But knowing them brings clarity and order to financial planning. Once goals are established, the right financial strategies and investment vehicles can help people reach them.

Situations such as David and Barbara's are common. Even a sizeable $2 million nest egg, which they accumulated prior to David's unplanned early retirement, may not seem comfortable when reviewed in the context of careful cash-flow modeling. But that's where goals-based planning shines. By exploring multiple scenarios, wealth advisors can help clients make the most of whatever surprises come their way.

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