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# CAREGIVING AND ITS IMPACT ON RETIREMENT PLANNING

AN INTERVIEW WITH SANDRA TIMMERMAN



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*The Society of Actuaries Committee on Post-Retirement Needs and Risks has recently had a focus on the link between retirement planning and long-term care. Sandra Timmerman authored “The 65 Plus Age Wave and the Caregiving Conundrum: The Often Forgotten Piece of the Long-Term Care Puzzle,” one of 12 papers published recently in the Society of Actuaries monograph: Managing the Impact of Long-Term Care Needs and Expense on Retirement Security. The monograph covers a wide variety of issues linking long-term care and retirement security. This paper focused on the impact on the caregiver and on the societal issues linked to caregiving. This interview provides some of the highlights of the issues raised in the paper. This is an area of retirement planning that is often neglected.*

## WHY DOES CAREGIVING AFFECT RETIREMENT?

While the family provides the lion’s share of care for an aging parent, spouse or other frail or disabled loved one, the role of the family caregiver and its impact on financial well-being in retirement is often forgotten. In fact, many caregivers themselves do not connect the dots. Yet the truth is that there are financial as well as emotional and health-related consequences of being a caregiver. Research data shows that, the average caregiver spends over \$5,000 a year out of pocket when providing care and can lose up to \$330,000 (mostly in wages and lost benefits) over a lifetime if he or she drops out of the workforce. Most caregivers are women. They live longer and generally earn less than men, so they need to plan for a secure future. The problem is that if they do decide to leave their jobs or take a hiatus from work, they will find down the road that they have accumulated less savings, lost the added funds provided by a 401(k) match and spent money on health care and other benefits once provided by an employer. And those who reenter the workforce once caregiving responsibilities are over may discover that

it is difficult to find a job at the same salary. Sometimes they many find it hard to find any job. Older caregivers taking care of a spouse may find that they use up most or all of the couple’s resources and are left with insufficient funds should they need care later. They may also be required to change their living standard and live on less money. All these factors contribute to often unrecognized retirement risk.

## WHAT ARE SOME OF THE IMPORTANT ECONOMIC ISSUES?

Over the next twenty years, the 75 million baby boomers will be in their 70s, 80s and beyond. We can anticipate that many will develop physical or cognitive disabilities that will require care. Gen X, the generation that follows, is a small generation, and many of them are the children of the boomers. The result is that there will be more care recipients than family caregivers to care for them. The situation is made worse by the projected shortage of paid caregivers available to supplement family care. While aging at home is preferred by the vast majority of older people, it may prove to be difficult for many people, especially those with few family members nearby, to receive the care they need. Add to this the low savings rates of the baby-boom generation, many of whom will not be able to afford to pay for care. At the same time, state Medicaid budgets are stretched to the limit and will be faced with even bigger challenges in the future. Without some policies and programs to help the family caregiver, we can anticipate even bigger government expenditures for long-term care services and support in the future.

## WHAT ARE SOME OF THE DEVELOPMENTS WITH REGARD TO AGING IN PLACE?

The government has been testing new Medicaid models which allow older people to age in place rather than be institutionalized in a nursing home. One example is the cash and counseling program. In this model, the older



person needing care is given a stipend and can choose how to pay for their long-term services and supports. They might, for example, decide to use the money to pay a daughter to be their caregiver and to make their home accessible. The expenditures are monitored to assure that there is no fraud involved. Programs are also springing up at the grass roots level for those older adults in the middle market who want to age at home, are not eligible for Medicaid, and can pay for some services. One example is the Village to Village Network. In this model, people join a Village, pay a membership fee and have a one-stop-shop, a person to contact if they need services such as a home care agency, a home remodeler, or a pet sitter. Most have volunteer banks so members can call when they need a ride to a doctor's appointment, meals when they are sick and other services. There are also new housing models such as home-sharing, co-housing and smart technology homes. These are promising developments, although at the present time, the scale and community infrastructure do not match the growing need.

#### HOW MIGHT THESE ISSUES BE WOVEN INTO RETIREMENT PLANNING?

It used to be that insurance and retirement products were sold in isolation. Now there is recognition that holistic and life planning strategies need to be integrated into the financial planning process as people transition from full time work to retirement. Most people will either be caregivers or care recipients, or both during the course of their lives. It is important to recognize that the responsibility of being a caregiver, the decisions to be made in regard to living arrangements for our parents and ourselves, how we want care to be provided and what we want at the end of life all have financial and legal ramifications. One of my favorite websites is Five Wishes [www.agingwithdignity.org](http://www.agingwithdignity.org). "Five Wishes is an easy to use legal document written in everyday language that lets adults of all ages plan how they want to be cared for in case they become seriously ill."

### WHAT CAN THE BUSINESS COMMUNITY DO TO ADDRESS THESE ISSUES?

Employers will find that many of their employees are caregivers, providing care for aging parents or other family members. Large employers generally sponsor work-life programs that include a hotline or website with eldercare resources. Some even provide caregiver coaches. Unfortunately, these programs are underutilized, with studies showing that employees are not aware that an employer might offer them. And, unlike childcare, some employees still believe that there is a stigma attached to admitting that they are providing care to a parent and need time off. It would be helpful for employers to continually make their employees aware of these programs as caregiving is something most people don't plan for. They should also make sure that managers know about the services available. For smaller employers, there is a wealth of resources available in many communities and Area Agencies on Aging are more than willing to come to a workplace to give seminars and provide resource information. I might also mention that entrepreneurs have an opportunity to provide services to caregivers in the community, ranging from home remodeling so people can remain in their home safely to new monitoring technology to taxi services geared to frail elders.

### WHAT ADVICE DO YOU GIVE FOR INDIVIDUALS THINKING ABOUT THEIR OWN SECURITY?

Most of us don't like to think about our own possible long-term care needs and so don't plan for them. And we generally don't know how we would pay for our care if needed or how it would impact our spouse or adult children. We also don't think about our possible role as a caregiver and the financial ramifications. While it is a difficult topic, we need to address not only how we would finance long-term care but also how we would

want our care delivered. Family members need to be part of that discussion. Long-term care insurance, use of home equity through reverse mortgages or other tools, and longevity insurance are products that need to be explored to insure that a retirement plan is not derailed.

### DO YOU HAVE ANY ESTIMATE OF WHAT PERCENTAGE OF PEOPLE ARE LIKELY TO BE AFFECTED BY THESE ISSUES?

Research indicates that 1 in 4 households is caring for an older person or adult with disabilities. In my opinion, this is one of those issues that we all face but continues to be an ongoing challenge as we juggle work and family, and do our best to make good decisions. As individuals, we need to do a better job of preparing so that our children will not struggle with caregiving. And business, the government and voluntary agencies all have a role to play as well. Businesses incur costs related to caregiving, but often they are hidden.

### WHAT IS MOST IMPORTANT FOR ACTUARIES TO KNOW?

Caregiving may not seem to be directly related to actuarial practice. Yet caregivers' health, longevity and finances may very well be impacted by the act of providing care to a loved one—the often forgotten piece of the retirement puzzle. ■

*Note: See the paper by Sandra Timmerman for data and more information on this topic. The other papers in the monograph may also be of interest to people interested in this topic. The papers clearly demonstrate that failure to consider these issues will leave gaps in many retirement plans. These are important issues to be considered in the construction of retirement education programs, employee benefit plans, personal retirement plans and public policy.*