

The Aging Economy

Improving with Age

Living longer means that thoughtful and effective financial decisions have to be made around retirement and estate planning goals.

People are living longer than ever before. However, while advances in medicine, health, nutrition and fitness have extended the lifespan of Americans, the number of years they spend in retirement has not changed much over the last generation because they are also working longer.

Across the country, the number of Americans enjoying their retirement years is increasing rapidly. Many members of the baby boomer generation (those born between 1946 and 1964)¹ are reaching the age of 65, the traditional starting point of retirement, and are looking for ways to fund their retirement lifestyles and goals. Whether it is for the many years of active living they expect or to fund ambitious retirement plans, taking action now is important to ensure success.

Living longer does not necessarily mean that Americans will be unable to afford to retire. However, it does mean that thoughtful and effective financial decisions have to be made around retirement, estate planning goals, savings strategies and tax planning in order to have the long and fulfilling retirement that most Americans want.

Americans are living longer

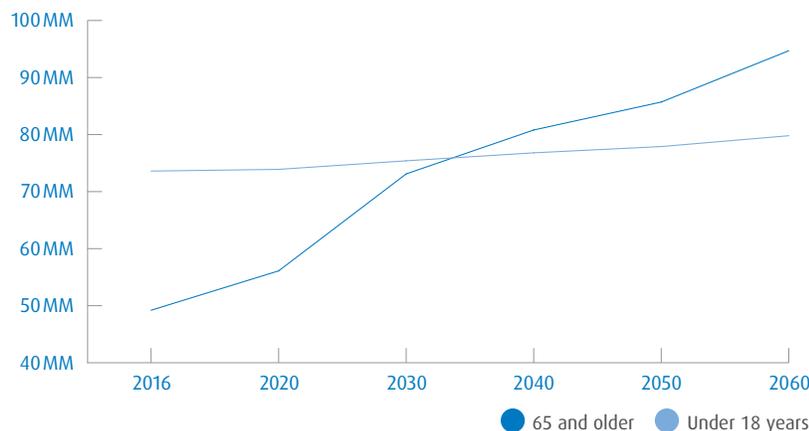
The American population is aging. Life expectancy for Americans today is 76.3 years for men and 81.2 for women,² and on average they spend about 18 years in retirement. Many live much longer than this, but are keeping their retirement years relatively constant by working longer.³ Between 2004 and 2014, the percentage of people age 65 and older who were no longer in the labor force because they had retired dropped from 72.5% to just 68.1%.⁴

For most of their retirement years, Americans enjoy good health and an active lifestyle. However, a significant number of American seniors report having chronic health conditions such as hypertension, heart disease, arthritis and diabetes.⁵ Among Americans age 65 and older, 22% reported having at least one healthcare issue affecting their vision, hearing, mobility, communication, cognition or care for themselves or others.

The graying of the American population

In 2017, the U.S. Census Bureau indicated that the proportion of the population aged 65 and over was 15%, and will grow to 23% by the year 2060.⁶ By 2030, when the last of the baby boomers have reached the age of 65, it is predicted that seniors will outnumber children under the age of 18 in the United States.

Number of children and seniors in the United States, 2016 to 2060



Source: U. S. Census Bureau. Data for 2020 to 2060 are population projections.

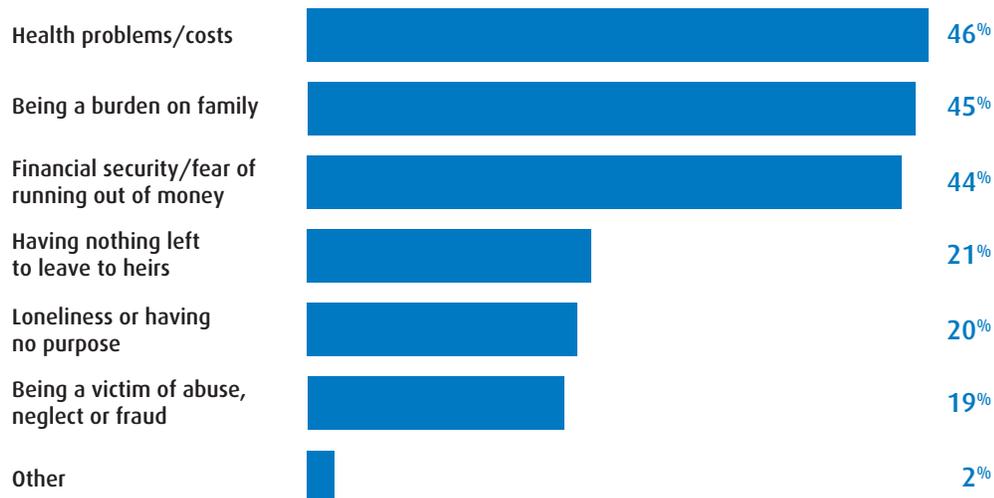
This trend is expected to continue beyond the year 2060, when the population of the United States will top 400 million, with the number of seniors increasing at a faster rate than the number of children. Increasing life expectancy and continuing low fertility rates are contributing to the aging of the U.S. population, but this will likely be offset to a degree by international migration.

An increasing percentage of seniors are continuing to work in retirement, and the growth rate in this age group is predicted to dwarf the rate of change in the labor force for all other age groups by 2024.⁷

Concerns about living longer

BMO Wealth Management commissioned a survey to learn the views of Americans aged 55 and older on issues related to aging, and the concerns that come with living a longer life,⁸ with the aim of identifying common issues so that boomers can thoughtfully and proactively address those important to them.

Top concerns about living a long life⁹



Source: BMO Wealth Management survey by Validatelt Technologies Inc., July 2018.⁹

Respondents were asked to select all applicable concerns from the list provided and the concern most frequently cited was about future healthcare costs and whether health problems will affect quality of life (46%). Being a burden on family members (45%) and running out of money during retirement (44%) also came high on the list. Having nothing left for heirs was mentioned by 21% of those surveyed and being lonely later in life by 20%. A similar number (19% of respondents) worried about becoming a victim of abuse, neglect or fraud.

Living an active lifestyle in retirement is enjoyable and can promote better health as you age. This is not limited to physical activities, but also includes engaging in rewarding social interactions. For many, volunteering can provide purpose and camaraderie and most importantly, it can slow the cognitive decline that often comes with aging.¹⁰

When healthcare concerns become an issue, having the resources and ability to find the care required can be difficult, especially for loved ones and family members. A discussion about some of the considerations and costs can be found in the BMO Wealth Institute report "[Understanding Disability – Planning for Financial Well-Being](#)."¹¹

Americans are staying in the workforce longer

Many Americans address these concerns by staying in the workforce or by earning self-employment income rather than relying on accumulated retirement savings. Over 20% of working seniors are self-employed.¹² From a financial planning perspective, earning additional employment income beyond a "normal" retirement age has a positive impact on making retirement funds last longer and achieving retirement and estate planning goals.

The gig economy is a growing trend in employment and one that is popular with boomers. The BMO Wealth Institute report "[The gig economy: Achieving financial wellness with confidence](#)" found that many are seeking temporary or freelance work because they are not ready financially or emotionally to retire.¹³

Do you have a contingency plan for unexpected healthcare costs?

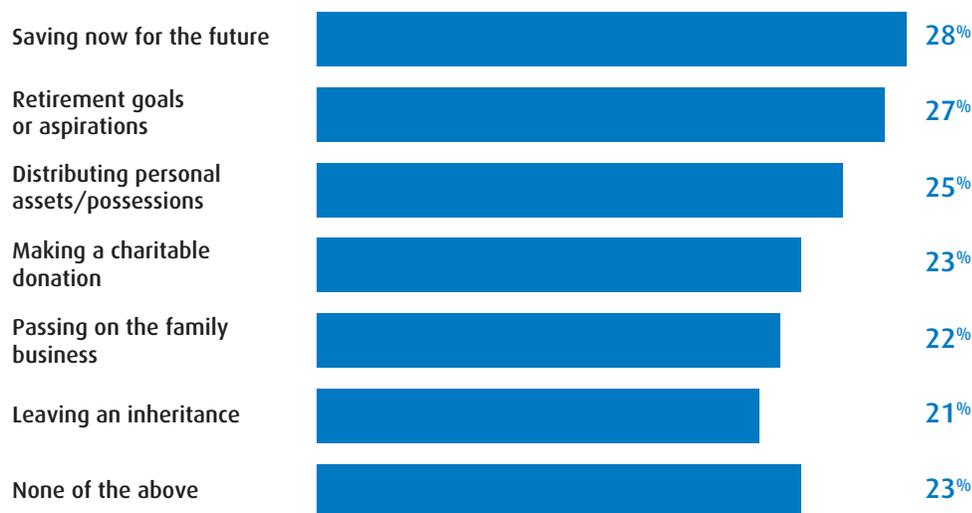
Are your financial goals aligned with those of your spouse or partner?

Spouses and partners have different opinions

One of the most interesting findings of the survey was that there were some important differences in opinion between spouses or partners regarding financial goals for the future. When and how much to save for the future was the difference most frequently cited (by 28% of respondents), with men more likely than women to report differences in opinion with their spouses or partners. Other issues included retirement goals (27%), how personal assets and possessions should be distributed to heirs (25%), making charitable donations (23%), decisions about passing on a family business (22%) and leaving inheritances to loved ones (21%).

Less than one in four respondents (23%) reported there were no major differences in opinion on financial matters that affected their relationship.

Differences in opinion over financial goals between spouses or partners⁹



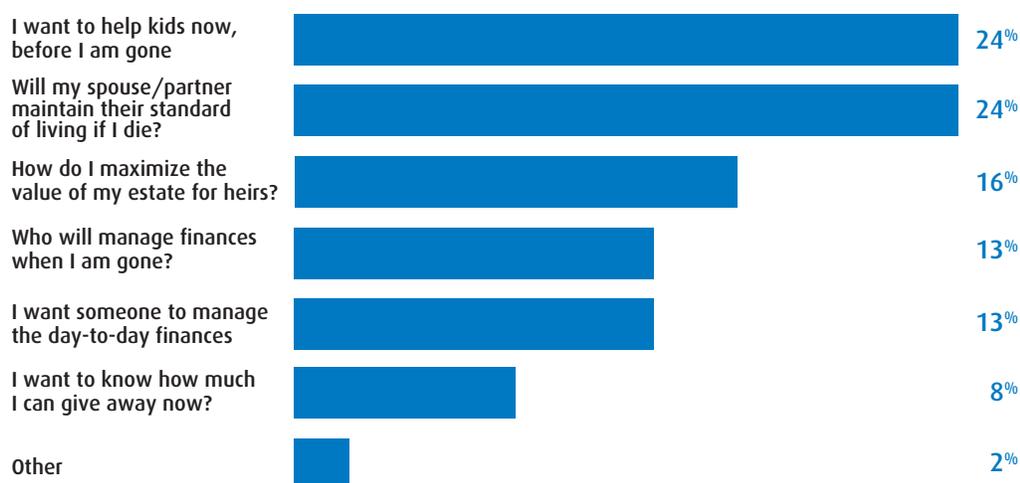
Source: BMO Wealth Management survey by Validatelt Technologies Inc., July 2018.⁸

Some of these differences may be due to the fact that women tend to live longer than men and often are younger than their male spouses.¹⁴

Support for adult children

One question that many couples face during their retirement is the extent to which they provide financial support for their adult children. This concern for family, which has an immediate impact on parents' financial situation throughout retirement, was highlighted in the family issues reported by survey participants. Asked to cite their top family concern, one in four respondents (24%) indicated it was a desire to help their children now rather than providing assistance later through an inheritance. An equal number were concerned about the standard of living of their surviving spouse. Maximizing the value of the estate that can be passed to heirs was a concern for 16% of respondents, followed by managing personal finances for heirs (cited by 13%) and management of day-to-day finances in retirement (by 13%).

Personal and family perspectives on living beyond average life expectancy



Source: BMO Wealth Management survey by Validatelt Technologies Inc., July 2018.⁸

Providing financial support for an adult child or grandchild is a decision that should be considered within a larger context that includes retirement, gift tax and estate planning considerations, ideally within a comprehensive wealth plan. Once it is determined that retirement goals can be met, then gifting to an adult child provides a helping hand without having to worry about running out of money. This issue is explored in greater detail in the BMO Wealth Institute report [“The Bank of Mom and Dad – a source of comfort for everyone.”](#)¹⁵

Are your retirement goals achievable before offering financial support?

With the increasing number of blended families, this issue has taken on greater relevance for many Americans. Divorce rates among adults aged 50 and older has doubled in the last 25 years.¹⁶ Second and third marriages complicate the question of providing financial assistance for adult children—whose children should benefit and from which parent’s financial resources? Add the cost of divorces to the picture and often this means less money is available to assist younger family members financially.

Retirement and investment goals

The survey also asked respondents to list the issues most important to them from an investment and retirement perspective. Three answers were cited most frequently: a desire to maximize retirement income (22%), fear of outliving their savings in retirement (21%) and the impact of long-term care costs on personal finances (19%). Other concerns less frequently cited, but still topical, included worries about diminished decision-making capacity (15%), concerns about who would make financial decisions when they die (13%) and reducing taxes on savings (9%).

Does your wealth plan address your perspectives on investments and retirement?

Investment and retirement perspectives on living beyond average life expectancy



Source: BMO Wealth Management survey by Validatelt Technologies Inc., July 2018.⁸

Wealth planning is necessary to figure out how to meet these various concerns, because financial resources are not unlimited.

Healthcare costs

Healthcare costs and their impact on the ability to achieve retirement goals is the top concern raised by respondents in the survey, even though many medical costs are covered at least in part by private insurance programs or Medicare. Medical costs can eat into retirement funding and are expected to increase annually. Estimates of medical expenses vary, but for a 65-year-old couple, lifetime costs can exceed a quarter million dollars.¹⁷ The cost of long-term care,

whether provided at home or in a nursing home environment, can have a detrimental impact on retirement and estate plans.

Solid financial and retirement plans build in contingencies for the additional costs of medical and long-term care if they are required. A report by BMO Wealth Institute provides estimates for the cost of in-home or residential care in the United States.¹⁸

The baby boomer generation is in the unenviable position of worrying not only about themselves, but also about the healthcare costs of their parents. With longer lifespans, blended families and remarriages, the sandwich generation has been further stretched and is now less like a traditional sandwich and more like a 12-inch sub.

Reducing taxes

Taxes are an important consideration in both retirement planning and estate planning. Putting strategies in place to reduce taxes today and in the future makes more assets available for funding a fulfilling retirement and passing on to the next generation.

Tax planning has been made more complex by the recent changes introduced in the Tax Cuts and Jobs Act introduced in 2017. The standard deduction was doubled, but personal exemptions and a number of itemized deductions were eliminated or reduced in value.

With interest payments on home equity lines of credit no longer tax deductible if the borrowed funds were not used on your home, there may be an advantage in paying down this form of debt to free up cash for investments and other purposes in the future.

Corporations can be used to reduce taxes, but this strategy is complicated and became more complex with the changes in the way deductions can be made against business income that were introduced in the new tax legislation.

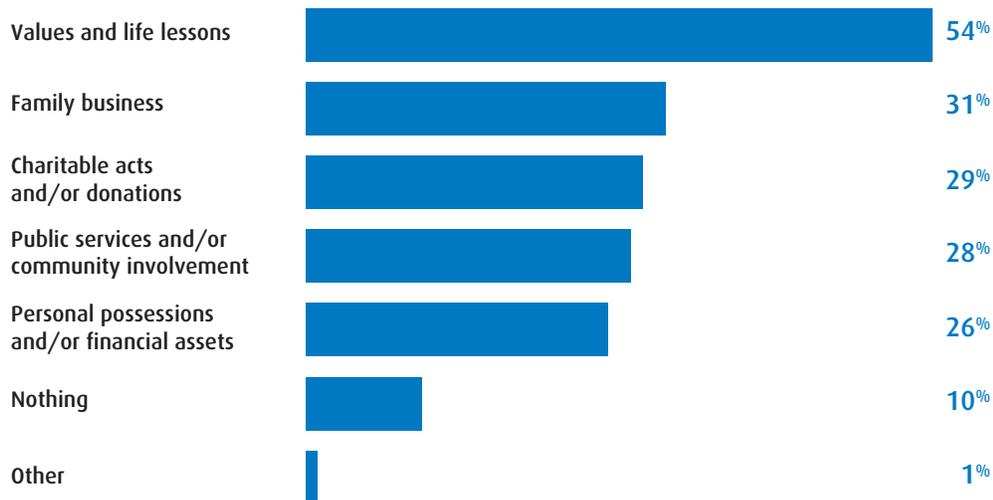
The 2017 tax law also doubled the gift and estate tax exemption to about \$11 million per person, providing additional tax and estate planning opportunities. A tax professional should be consulted for advice on all of these issues.

Philanthropy

In the context of living a long and full life, the survey researchers asked Americans aged 55 and older how they wanted to be remembered. More than half of the respondents (54%) highlighted the values and life lessons that they shared with their family and friends. Almost one-third (30%) felt their legacy was in charitable acts and donations, and 28% of respondents cited public service and community involvement. One in four (26%) thought the accumulation of personal wealth was important from a legacy point of view and family businesses were mentioned by 31% of those surveyed.

Have you considered these tax planning strategies?

How Americans want to be remembered⁹



Source: BMO Wealth Management survey by Validatelt Technologies Inc., July 2018.⁸

A majority of survey respondents believed that their legacy will be defined more by the values that they have lived by and the lessons they have shared with those close to them than by the material possessions and wealth that they have accumulated. The issue of a personal legacy has been thoughtfully addressed in the BMO Wealth Institute report "[The family conversation you should not avoid: How to discuss your legacy](#)."¹⁹ This report goes beyond traditional estate planning to talk about ways to avoid family conflict and to ensure a lasting and positive legacy.

Charitable giving has a place for many Americans that possess the necessary financial resources. There are significant tax benefits to be realized by charitable giving, especially if contributions are bunched to increase the total amount given in a single tax year. Furthermore, the use of strategies such as setting up a donor-advised fund or a charitable foundation can create an immediate tax benefit and build a long-term legacy of supporting causes that are personally important. A major benefit of creating an instrument for long-term giving is that it allows donors to be thoughtful and methodical in their giving, as well as involving their families. It can be regarded as a legacy for the whole family.

A good Will

It is very important to work with an experienced legal professional to prepare a living revocable trust, Wills and Powers of Attorney that clearly explain your estate planning and distribution goals. Litigation between potential estate beneficiaries is expensive, reducing the amount available for your heirs. It can also hold up the distribution of an estate for years, delaying financial benefits for loved ones and causes you care about.

Have you considered how you want to be remembered?

Legacy planning

Anyone who undertakes the task of estate planning does so with the wish that feelings of goodwill and harmony will be fostered among surviving family members, rather than resentment and division. One particularly difficult decision parents or grandparents must make when planning the transfer of wealth to the next generation is whether the transfer will be equal or equitable.

In estate planning, equality means dividing an inheritance equally without considering individual differences in economic standing. In other words, everyone receives the same amount regardless of each child's circumstances, personal attributes and earning power. On the other hand, an estate plan that is based in equity is one that takes account of, and is sensitive to, each child's particular life circumstances. So, while succession which is based in equity takes individual differences into account and attempts to compensate the less fortunate child, succession that is based in equality is—in a manner of speaking—blind to the children's individual differences.

Life insurance can be used to pass on funds based on equality to children and grandchildren. This option can be particularly cost effective if there are significant assets such as family businesses or property holdings that are difficult to distribute to multiple beneficiaries, or have high estate tax liabilities.

Financial education is key

There are many variables that can have an impact on retirement, estate planning and being financially able to meet your personal goals. Some of these are personal factors such as how much you have saved and how and when you want to provide financial assistance for your adult children and the causes you care about. Other factors, including changes in tax rules and the economy must be considered dynamically as they affect your retirement plans.

For this reason, learning more about your personal finances and setting personal goals and plans is a valuable investment. It can be hard to find time for this when the day-to-day focus is on employment and earning a living, but retirement is an ideal time to take advantage of available professional resources and become more educated about how to succeed in your financial, retirement and estate goals.

By working together with your BMO financial professional to become more educated about your financial options and opportunities, it will be possible to make good decisions that help you better manage your financial future as circumstances change.

Footnotes

- ¹ The Baby Boom Cohort in the United States: 2012 to 2060 – Population Estimates and Projections.” Colby, S. L. and Ortman, J. M. U. S. Census Bureau, May 2014. <https://www.census.gov/content/dam/Census/library/publications/2014/demo/p25-1141.pdf>
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- ³ “Average Retirement Age in the United States.” Anspach, D. The Balance, July 20, 2018. <https://www.thebalance.com/average-retirement-age-in-the-united-states-2388864>
- ⁴ “People who are not in the labor force: why aren’t they working?” Hipple, S.F. Bureau of Labor Statistics, December 2015. <https://www.bls.gov/opub/btn/volume-4/people-who-are-not-in-the-labor-force-why-arent-they-working.htm>
- ⁵ “Older Americans – Key Indicators of Well-Being 2016.” Federal Interagency Forum on Aging Related Statistics, 2016. <https://agingstats.gov/docs/LatestReport/Older-Americans-2016-Key-Indicators-of-WellBeing.pdf>
- ⁶ “Demographic Turning Points for the United States: Population Projections for 2020 to 2060 – Population Estimates and Projections.” Vespa, J., Armstrong, D.M. and Medina, L. U. S. Census Bureau, March 2018.. https://www.census.gov/content/dam/Census/library/publications/2018/demo/P25_1144.pdf
- ⁷ “Older workers: Labor force trends and career options.” Toossi, M. and Torpey, E. Bureau of Labor Statistics, May 2017. <https://www.bls.gov/careeroutlook/2017/article/older-workers.htm>
- ⁸ BMO Financial Group survey conducted by Validatelt Technologies Inc. for the BMO Wealth Institute between June 28 and July 5, 2018, with an online sample size of 502 Americans aged 55 and over. The overall probability results for a sample of this size would be accurate to within +/- 3.01% at the 95% confidence level.
- ⁹ Respondents in the survey may have selected more than one response, so the percentages in the table do not total 100%.
- ¹⁰ “Research Finds Volunteering Can Be Good for Your Health.” Gallegos, D. Wall Street Journal, April 22, 2018. <https://www.wsj.com/articles/research-finds-volunteering-can-be-good-for-your-health-1524449280>
- ¹¹ “Understanding Disability—Planning for Financial Well-Being.” BMO Wealth Institute, May 2014. <https://www.bmo.com/privatebank/pdf/Q2-2014-Wealth-Institute-Report.pdf>
- ¹² “The Ascent of the Senior Entrepreneur.” Wilmoth, D. U.S. Small Business Administration Office of Advocacy, August 18, 2016. <https://www.sba.gov/sites/default/files/advocacy/Ascent-Senior-Entrepreneur.pdf>
- ¹³ “The gig economy: Achieving financial wellness with confidence.” BMO Wealth Management, July 2018. https://wealth.bmoharris.com/media/resource_pdf/18-0996_BMO_Wealth_Insight_Gig_Economy_US_Ev4.pdf
- ¹⁴ “Median age at first marriage: 1890 to present.” U. S. Census Bureau, 2018. <https://www.census.gov/content/dam/Census/library/visualizations/time-series/demo/families-and-households/ms-2.pdf>
- ¹⁵ “The Bank of Mom and Dad – a source of comfort for everyone.” BMO Wealth Institute, December 2015. https://wealth.bmoharris.com/media/resource_pdf/bmowi-bank-of-mom-and-dad.pdf
- ¹⁶ “Led by Baby Boomers, divorce rates climb for America’s 50+ population.” Stepler, R. Pew Research Center, March 9, 2017. <http://www.pewresearch.org/fact-tank/2017/03/09/led-by-baby-boomers-divorce-rates-climb-for-americas-50-population/>
- ¹⁷ “Don’t freak out about health care costs in retirement.” Lobosco, K. CNN Money, December 30, 2015. <https://money.cnn.com/2015/12/30/retirement/retirement-health-care-costs/index.html>
- ¹⁸ “Who will be your caregiver?” BMO Wealth Institute, September 2015. https://wealth.bmoharris.com/media/resource_pdf/bmowi-your-caregiver.pdf
- ¹⁹ “The family conversation you should not avoid: How to discuss your legacy.” BMO Wealth Institute, March 2015. <https://bmogamviewpoints.com/wp-content/uploads/2015/03/wealth-institute-discuss-legacy.pdf>

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