



UNIVERSITY OF  
**FLORIDA**

IFAS EXTENSION

## Financial Issues<sup>1</sup>

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## Aging in the 21st Century

According to the U.S. Census Bureau, by the year 2050 the nation's elderly population will more than double to 80 million, and the more frail, over-85 population will quadruple to 18 million.

Currently, Florida ranks first in the United States in the percent of the population who is full-time and seasonal residents over the age of 65. Older Floridians, their families and communities face a myriad of issues related to aging.

*Aging in the 21st Century* is an eight-topic program that addresses issues such as:

- health and medical care
- family relationships
- economic concerns
- caregiving
- home modifications
- retirement
- nutrition and diet

Institute on Aging core faculty from the Colleges of Medicine, Nursing, Health Professions, and Liberal Arts and Sciences joined Extension faculty from IFAS as educators for this series.

1. This document is FCS2212/FY627, one of a series of publications from the distance education in-service "Aging in the 21st Century," coordinated by Carolyn Wilken, PhD, MPH, Department of Family, Youth and Community Sciences, UF/IFAS. First published: September 2003. Reviewed by Candice King, formerly coordinator of Research Programs, Institute on Aging. University of Florida, Gainesville, 32611.

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## WHAT YOU WILL LEARN

- **MONEY PROBLEMS:** What are the seven main financial problems older adults face during retirement?
- **MONEY SOLUTIONS:** Facts and tips on:
  - cash reserves
  - fixed & equity assets
  - insurance
  - legal documents

## MONEY PROBLEMS

The most common financial problems older adults face in later life are described below.

### Not enough money

Lack of money is the most common problem among retirees today. Professionals believe an adequate retirement income is approximately 60 to 80% of your pre-retirement income. Sources of income include social security, pension plans, investments, full or part-time work and assistance from family members.

### Too much money

Receiving lump sum payouts or inheritances can also be a problem for older adults. Most retirees (about 70%) who receive a large sum of money will lose it within 2 years. Professional help is very important in developing an effective plan to deal with large amounts of money.

### Inflation

Inflation can largely affect the financial plans of retirees. A three percent inflation rate, for example,

will increase a \$2500 real estate tax bill to \$3360 in 10 years.

### Deflation

The flip side of inflation is deflation. If prices are deflated and your retirement fund and investments are in defined contribution plans, you may find a severe short fall in making ends meet.

If your retirement funds are in defined contribution plans, the risk is the company's and of course yours, if the company goes bankrupt.

### Living too long

Another common problem among older adults is outliving their income. At an older age, retirees also become easy targets to a number of consumer frauds. These include telemarketing, phony health products and insurance/medical fraud.

### Dying too soon

Retirees often have family members (children, grandchildren, parents, etc.) who depend on them. Planning for their well-being once you are gone is essential.

### Incompetence

Older adults who are declared incompetent are often the target of unscrupulous family members, acquaintances and caregivers.

Preparing yourself financially and legally can spare you from feeling you lost control of your life.

## MONEY SOLUTIONS

Although we cannot foresee unexpected events that come across our lives, planning can help to control some financial problems.

Following are four money solutions that will help you plan and manage your retirement.

These solutions are: *adequate cash reserve, fixed and equity*

*assets, adequate insurance and proper use of legal documents.*

### 1. ADEQUATE CASH RESERVES

After retirement, it is very important that you have money that is accessible to use. These are "put and take" dollars to pay your regular bills. It includes checking with interest, Credit Union accounts and money market funds.

You should have emergency funding for two to six months of your living expenses in cash reserves. Accessible credit, in the same amount, is also acceptable.

### 2. FIXED & EQUITY ASSETS

A good plan for retirement income includes a balance of both fixed and equity assets. For beginning employees, an appropriate amount of money to save for retirement is 12 to 15% of their pre tax income. Employees who wait until their late 30's or early 40's should save between 20 or 25% of their income.

#### Fixed assets

These are assets that protect against deflation. They include bonds and certificates of deposit that have a fixed rate of return.

#### Equity assets

These are assets that protect against inflation. They include real estate, stocks and mutual funds.

#### REMEMBER:

Because they tend to live longer than men, women should:

- Have a liquid account in their own name
- Gain knowledge of family finances
- Develop skills in writing checks, paying bills and balancing checkbooks
- Take a class in managing money

### 3. ADEQUATE INSURANCE

There are a number of different types of insurance you will have or plan to have when it is time to retire. When dealing with insurance at an older age, the most important things to remember are:

- Review your policy on a regular basis. Annually is best.
- Keep a list of policy numbers with company name, address, location of policy and agent's name and telephone number.
- Look for gaps in coverage.
- Think thoroughly before you drop one insurance policy for another one. You may be uninsurable or the rates may be very expensive.

The types of insurance you will be mostly concerned about during retirement are: *life, health property & liability, disability, and long-term care*. Following are some important facts about and tips on each of them.

#### LIFE INSURANCE

As you become older, there is less and less need to carry life insurance. This is especially true if you no longer have dependents.

You should assess your needs and review your life insurance policy annually. Develop a plan to modify it if you see that it is advisable.

#### HEALTH INSURANCE

There are a few things you should consider when dealing with health insurance:

1. Explore the need for supplement policies that fill Medicare gaps.
2. Only purchase insurance with an 'A' or higher rating from BEST's insurance report. This shows a company is financially sound and pays their claims.
3. If you travel outside your state or the country, be sure your policy is valid for such travel.

#### PROPERTY & LIABILITY INSURANCE

For as long as you have assets, you will need to have property and liability insurance. You might even need to increase your policy if you accumulate more assets as you grow older.

The important thing to remember, again, is to review your policy annually. Make sure to assess your risks and develop a plan for any needed changes.

#### DISABILITY INSURANCE

Disability insurance is perhaps the easiest to review. If you are still in the work force you need it, if you are retired and not working, you don't.

If you still have a policy make sure to review it frequently and modify it as needed.

#### LONG-TERM CARE INSURANCE

There are several premium options for long-term care insurance based on length of time and how much money you need daily.

Where you live makes a great difference on the amount of money you will spend on nursing home care per day. In Florida, the cost is currently \$100 per day.

When considering long-term care insurance, you should first answer these two main questions:

1. Do you need it?

Look at your family health history. Are there many cases in which family members needed long-term care? Also look at your own health. Are there any indications you might need long-term care?

2. Can you afford it?

Long-term care policies can be very expensive. In fact, studies show that 84% of retirees cannot afford long-term care insurance. Before you purchase it, do the math. Can you afford to pay the premiums now and in the future?

For quotes visit:

[www.quotesmith.com](http://www.quotesmith.com)

#### Sample Long-Term Health Care Policy Premiums at Different Ages

Age	Company 1 annual premium	Company 2 annual premium
50	\$1,490	\$ 2,606
60	\$2,034	\$ 3,890
70	\$5,008	\$ 8,230

## 4. LEGAL DOCUMENTS

Legal documents can be very important during your older age, especially to avoid problems related to incompetence.

The four types of documents you should consider are: durable power of attorney, living will, health care power of attorney and living trust.

### Durable Power of Attorney

This is a legal document that appoints another person (agent) to act on the principal's (your) behalf.

The key word is *durable*. This means the document is effective even if the principal (you) becomes incompetent. The agent's power may be broadly or narrowly stated, according to your desire and needs.

### Living Will

A living will lets family members know what type of care you do or do not want to receive if you become terminally ill.

It is important that your doctor have a copy of this document. You should also always carry a copy with you during out-of-state trips.

### Health Care Power of Attorney

This document may also be called a health care proxy. It allows you to designate individual(s) to make health-care decisions on your behalf if you become incapable of making such decisions.

### Living Trust

A living trust is a legal arrangement between you (the grantor) and the trustee (person you identify) to control and manage the assets in the trust.

If properly set up, a living trust:

- Avoids probate at death of the grantor,
- Prevents court control of assets at incapacity,
- Provides maximum privacy,
- Provides quick distribution of assets to beneficiaries,
- Prevents unintentional disinheriting, and
- Reduces or eliminates estate taxes.

#### PUBLICATIONS IN THIS SERIES:

- ***The Future of Aging is Florida***  
Jeffrey Dwyer, PhD
- ***Safe Return***  
Meredeth Rowe, RN, PhD
- ***Designing Educational Programs for Older Adults***  
Carolyn Wilken, PhD, MPH
- ***Elder Nutrition***  
Linda Bobroff, PhD, RD, LD/N
- ***Fall Prevention***  
Kristen Smith, MPH
- ***Family Relationships in an Aging Society***  
Terry Mills, PhD
- ***Adapting the Home***  
Pat Dasler, MA, OTR/L
- ***Financial Issues***  
Jo Turner, PhD, CFP

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