SOCIETY OF ACTUARIES

Article from:

# Product Matters

June 2015 – Issue 92

# 5 Senior Market Segments
## *Plus Strategies for Serving Them*

*By Dan Mulé*

*Dan Mulé has held numerous senior leadership positions in sales and distribution. Most recently he led the AIG Financial Network as Chief Distribution Officer. He can be reached at muledan@aol.com.*

As insurance and financial services professionals entrusted with helping clients make wise decisions, it is imperative our industry understands the crucial segmentation of the so-called "senior" population. Age figures into a variety of legal and financial milestones; but more than divisions based on age, the truest insight into senior segments is cohorts organized around work, leisure, health, income, and income sources. These filters provide windows into the needs and concerns of pre-retirees, silver entrepreneurs, retirees, as well as their spouses and family members.

Selling to seniors is not a one-note call to action. The concerns of a 70 year old are not ofte n the same concerns of a 50 year old, yet both people are part of the senior market, along with a 90 year old. Clients are looking for multifaceted solutions that help them where they are today, and are flexible enough for tomorrow and the next day as well.

Let's remember consumer needs from an emerging financial professional perspective. As I recall, going back to the 1970s, agents often offered a single-minded or one-note protection mindset: death and disability. As time moved on, our industry evolved into offering clients various kinds of protection and accumulation strategies and tactics. Financial professionals learned to help clients save more effectively and protect their families and assets via multiple products.

Now, our industry is in a completely new phase facilitated by holistic interaction with clients regarding protection and the need to help ensure sufficient income in retirement. As financial professionals, we have the potential to best serve clients when we become very well educated in who we are serving, as well as the different tools and new product features we can leverage for the protection of assets people have accumulated and still are accumulating during working senior years.

### Senior Segment One: pre-retirees

While "senior" might typically start at 55 years of age and up, many people turning 50 need help making plans for what previously seemed so far away. Additionally, a younger spouse (for example, ages 45-54) married to an older retiree often is ready to make financial changes and pre-retirement decisions. The pre-retiree segment also has an elastic maximum age, since some people either choose to work, or need to work, into their 70s and beyond.

Whatever their ages, pre-retirees are still actively earning and accumulating. While they certainly should consider innovative solutions for the breadth of retirement, which I'll discuss below, some younger pre-retirees might consider term life insurance. As you know, term life is popular early in life, when clients are trying to protect a multitude of priorities. Later though, term life products can address specific, unique challenges relative to retirement, as some clients' working lives extend from 55 to 65 and beyond. While a permanent life insurance solution alone may not be appropriate due to budget or other considerations, a strategy using a combination of term-life coverage and a permanent life policy could be just what is needed.

As a hypothetical example, let's look at the need to insure $1 million for a pre-retiree client. Understanding any ideas discussed are purely conjectural, perhaps we might divide the coverage equally—50 percent each—into what some call the "term and perm" combination, where needs are both covered and more affordable. Leveraging policy features along the way, as clients transition through senior market segments, may be the optimal solution. Term insurance by definition is for a specific term, not forever, and can be a very cost-effective means for protecting income streams as Americans work longer.

### Senior Segment Two: underfunded yet still working

As with pre-retirees, this segment encompasses diverse age groups within the senior population. The U.S. National Retirement Risk Index (NRRI) warns that more than half of today's households will not have enough retirement income to maintain a pre-retirement standard of living, even if the wage-earners work to age 65.[1] Raising an even more urgent warning, a recent Employee Benefit Research Institute survey of workers age 55 and older indicates almost 60 percent have saved less than $100,000 for retirement, and 24 percent have saved less than $1,000 for retirement.[2]

Many people will need to consider working longer than anticipated. If a client is not in optimal condition to retire, he or she can choose to take advantage of "catch-up provisions" in 401(k) plans, and—as income continues longer and beneficiary spouses are exposed—consider the benefits of life insurance to protect loved ones for longer periods of time. The good news is innovations in life insurance can do more than simply pay for a catastrophic death. Some new products feature a suite of riders that not only allow accelerated access to a portion of the death benefit, but also offer the potential for clients to leverage cash value in the policy to access a stream of income, if needed due to longevity or critical illness.

## Senior Segment Three: actively retiring

When we consider it is now quite possible to work for 30 years, and then retire for 30 years, the challenge of how to appropriately handle distribution of assets during longer retirement years comes into even sharper focus.

Some of us never truly retire into the classic mythology of endless golf rounds and bridge games. Whether we ever fully retire or not, Americans described in this third senior segment are reaching retirement milestones delineated by legal thresholds.

When clients approach age 55, they start engaging decision matrixes similar to these:

- Do I retire? (If so, when?)
- At age 59.5, do I take early distributions or do I wait?
- At age 62, do I start taking minimum Social Security payments or wait and receive a normal or even maximum benefit later?
- At ages 65-68, must I retire from certain age-limited careers and will I start taking delayed benefits? Will I sign up for Medicare?
- At age 70.5, if I have qualified plans, how will I handle required distributions?

These can be complex questions carrying a tremendous number of variables. Many Americans are not prepared to conduct this analysis and need the advice of qualified professionals to help them make the wisest choices for their particular lives and their unique situations. While clients are accustomed to looking online for information, there is no so-called "holy grail" that answers these questions: they can't simply look at a website filled with general information and hope to formulate and execute a successful plan. Financial professionals can help clients navigate these important and potentially confusing and stressful decisions.

## Senior Segment Four: fully retired

For this discussion, I define fully retired clients as not actively earning or in the workplace, instead drawing their income from some combination of savings, assets, pensions, Social Security, annuities, and any other similar sources. Typically, these clients are also described as being on a "fixed income," i.e., with no variables resulting from additional streams of new income. As with most segments, these seniors might be any age over 55, but in my view, they tend to be 65 and older.

It is important to note the workplace definition that differentiates segment four from the first three: People in the first three segments are still generating a workplace income for living expenses, whether their retirement sources are well funded or underfunded. Here, in segment four, fully retired clients are drawing only from the combination of saving and assets described above. For these clients, the hope is that they have saved throughout their lifetimes and have multiple sources to fund their retirement years. Financial professionals serving fully retired clients can focus on solutions that may help extend existing resources and may help when confronting emergencies.

Before we turn to the last segment, Senior Segment Five, let's take a step back.

## Senior Segment Moment: the three challenges

For all segments of the senior market, the question is how to make the money last long enough for the three basic challenges: We either die too young, we live too long, or we get sick along the way.

CONTINUED ON **PAGE 16**

If we die while we're still earning and accumulating, the challenge of making the money last long enough applies to our loved ones. Did we protect their lives? Did the money last long enough for them?

If we live "too long," (which we increasingly are, according to the U.S. Centers for Disease Control and Prevention[3]) will the money last long enough for our needs? This is not only a logistical challenge; it is an emotional and psychological challenge. Many people view turning to adult children or other family members for help as "being a burden." We don't want to be a burden on others. We're independent; we value being able to care for ourselves. Living beyond our savings and financial independence is a pervasive concern; a 2014 Bank of America national survey of people with assets ranging from $50,000-$250,000 indicates more than half of Americans fear they will run out of money in retirement.[4]

If we are diagnosed as so critically ill as to need long-term care or highly specialized care, we can quickly exceed our careful budget and savings. While Medicare and its various supplements certainly help with some health care costs, they don't cover the full costs of comprehensive care for assisted living and highly specialized disease management.

This triple threat of dying too soon, living too long, or getting sick along the way is why I am so excited about the new products I mentioned earlier featuring accelerated benefit riders designed to address each of those three concerns.

## Senior Segment Five: independent and leaving legacies

From a financial professional perspective, our industry has evolved into one that is quite analytical, and often, we talk to people in analytical terms: charts, graphs and numbers. But the so-called emotional things truly matter: dignity, independence, and the legacy we leave. This is crucial for financial professionals, that we understand how emotions can impact people at these incredibly meaningful moments.

Think about pre-retirees and retirees: so many have always provided for others, educated their children, and lifted them up into the world. I believe the pervasive mindset of retirees is to take care of others, not "be a burden" on children or grandchildren. It would behoove us to understand this motivation to be independent, and take a holistic approach to planning with the goal of providing independence, maintaining dignity, and creating a legacy to leave to heirs.

As financial professionals, we are there for clients in their most meaningful moments. We can be inspired and motivated by the role we play in those meaningful moments to help people change their lives, and the lives of their loved ones, for the better. ◻

### ENDNOTE

[1] *National Retirement Risk Index, MarketWatch, December 17, 2014, accessed February 6, 2015 at http://www.marketwatch.com/story/retirement-index-shows-many-still-at-risk-2014-12-17*

[2] *10 things retirees won't tell you, MarketWatch, January 30, 2015, accessed February 6, 2015 at http://www.marketwatch.com/story/10-things-retirees-wont-tell-you-2014-09-19*

[3] *Mortality in the United States, Centers for Disease Control and Prevention, October 2014, accessed February 6, 2015 at http://www.cdc.gov/nchs/data/databriefs/db168.htm#which_population*

[4] *Many Americans fear going broke in retirement, USA Today / Bank of America, August 21, 2014, accessed February 6, 2015 at http://www.usatoday.com/story/money/personalfinance/2014/05/25/retirement-affluent-americans-going-broke/9383019/*