America's new retirement reality

COVID-19 amplifies demographic and societal trends, foreshadowing challenges that more Americans will face on the road to a financially secure retirement

by Voya Cares® Center of Excellence
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The U.S. Census illustrates that the American population is continually aging, while at the same time the COVID-19 pandemic has indelibly impacted the economic future of older Americans and their caregivers. Consequently, the vision of retirement is changing.

The number of people age 65+ in the United States is projected to grow from 56.4 million in 2020, to 82.3 million in 2040 and 98.2 million by 2060.[1]

Over the next nine years, as the last group of Baby Boomers turns 65, seven out of 10 will require long-term care in their lifetimes,[2] and their adult children will likely become their unpaid family caregivers during their prime earning and childrearing years.

The picture of the average family caregiver of an older adult

- Woman
- 49 years old—Gen X
- Bachelor's degree or higher
- Working
- Income over $50,000 per year
- Raising young children

Gen X, overall, has the most financial challenges:

- Carry the most debt[3]
- Spend more than any other group on non-essentials (clothing, entertainment, dining out, gifts, snacks, etc.)
- Have accumulated assets that lag behind those of the Baby Boomer generation[4].

Millions of Americans — 11 million or 28% of all caregivers — currently are "Sandwich Caregivers" who provide unpaid care to an adult while also caring for children living in their home."[5]

For a variety of personal and financial reasons, nearly 20% of Americans over age 65 — a total of 10.6 million people — also are either working or looking for work, representing a 57-year high.[6] Although some "Career Extenders" work longer because they enjoy the stimulation that their careers provide, the focus here is on the group of Americans working past age 65 because they do not have the resources to retire, a situation that the economic impact of the pandemic is making more common. Career Extenders challenge traditional views of retirement by either postponing retirement or retiring from one career and embarking on another.

See End notes on page 11 for source information.

What is becoming increasingly clear is that Americans of all ages are more likely to become part of one or both of these groups in their lifetime. By extension they also are more likely to experience the challenges these groups face when planning for the future.

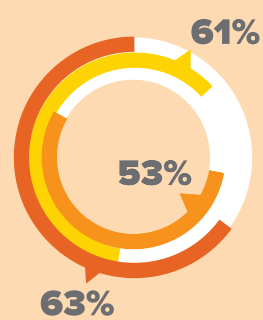
These two groups, those who will retire later than their "normal retirement age" due to hardship (Career Extenders) and those who are finding their ability to prepare for retirement compromised because of dual caregiving roles (Sandwich Caregivers), may experience both health and wealth crises during the next several decades.

Adding to increased longevity, the future of many of the public-support systems that past generations relied upon is uncertain, while the cost of providing care is skyrocketing and the interest rate has been low for a prolonged period. The COVID-19 pandemic has amplified the issues facing these two groups. Traditional advice urges Americans to begin preparing early for retirement, targeting a goal of 80% of their pre-retirement annual income over a 25 year retirement period, and planning for an annual withdrawal of 4% of total investments[8]. However that advice misses the mark for Career Extenders and Sandwich Caregivers.

According to Voya Financial's Voya Cares® program, many of the tenets of special needs financial planning can be applied for these two groups, emphasizing the use of government benefits in coordination with employee benefits to supplement available assets. At the same time, Voya Cares is leading the charge with research studies to help better understand the unique challenges of these two groups and to develop innovative planning solutions to better meet their unique challenges.

Caregiving and its impact on retirement[7]

- Almost two-thirds (63%) of caregivers are concerned about retirement security because of the financial impact of being a caregiver.
- 61% are concerned about having the extra funds available to save more for their retirement.
- More than half (53%) are planning to postpone their retirement due to their caregiving responsibilities.



Unique needs amplified by the COVID-19 pandemic

The COVID-19 pandemic brought with it profound short- and long-term effects on public health and the overall economy that have particularly impacted Career Extenders and Sandwich Caregivers.

Two effects of note are:

- **Interrupted employment ... and retirement savings:** The pandemic created immense challenges for many businesses and working Americans. Many individuals experienced reduced hours, salary cutbacks, furloughs and layoffs. Over 30 million individuals reported being unable to work or had to work reduced hours as of July 2020[9].

  Females, people with disabilities, older workers and people of color were particularly hard-hit. As take-home pay decreases, so do contributions to retirement and emergency savings, and early retirement may mean Social Security benefits are reduced due to early filing.

- **Quality and availability of long-term care:** Recruiting and retaining quality direct-care staff has long been a challenge in skilled nursing facilities, and these problems have been amplified by the pandemic.[15]

  These facilities also have lost funding in recent years, while at the same time growing numbers of senior citizens are in need of their services.[16]

  Facilities are struggling with staffing and funding, leading to an increased possibility of closing down for good. In an August 2020 survey of nursing home operators by the American Health Care Association (AHCA) and the National Center for Assisted Living (NCAL), 72% of respondents reported an inability to maintain operations through 2021; 40% said they won't last another six months.[17]

Impact of COVID-19 on employment

- **Women:** Since the onset of the pandemic, 400,000 more women than men left the workforce, largely due to the increased burden of unpaid care — shopping, cooking, cleaning, and taking care of children and parents in the household.[10]
- **People with disabilities:** One in five workers with disabilities lost their employment since the pandemic began in March 2020, compared with one in seven for their able-bodied peers. In all, nearly one million jobs have been lost in the disabilities community.[11]
- **Older Americans:** Approximately 4 million workers age 55 to 70 were expected to be forced into early retirement due to the COVID-19 pandemic.[12]
- **Black and Hispanic workers:** Reported jobless rates were 9.9% and 8.5%, respectively [per the March 4, 2021 jobless report], remaining above the U.S. figures, as they have been throughout the Covid-19 pandemic.[13]
- **Caregivers:** Caregivers report a higher likelihood of being impacted by job loss or having their hours cut back. One in five said they experienced difficulty meeting the financial needs related to providing special care for their family member.[14]

Overlooked and underserved

Magnifying the demographic and socioeconomic forces that are shaping the impending crisis for Sandwich Caregivers and Career Extenders is the fact that their unique needs have yet to be fully addressed by the financial services industry. Historically, companies have prioritized traditional concepts of retirement and strategies for turning life savings into income, an approach that may not be optimal for those who don't fit the traditional mold.

The cost of care has skyrocketed with the price tag of a nursing home averaging $100,000 annually. Hiring in-home skilled nursing care is equally out of reach, costing up to $87.50 per hour, leaving many family members and friends to take over caregiving responsibilities themselves[18], and those planning for a secure retirement will need to set aside more and more to cover these costs.

Just as the private business sector has yet to address the needs of Sandwich Caregivers and Career Extenders, the same is true for the public sector. Little progress has been made in resolving long-standing issues in accessing and paying for health care and for supporting caregivers. Services still sorely are needed to increase the quality of life for people with disabilities and caregivers.

Opportunities exist for both the private and public sectors to break free from the traditional mold and provide innovative, holistic planning solutions that are inclusive of these individuals.

Looking specifically at key areas of need — and how these needs are unique for Sandwich Caregivers and Career Extenders — may serve to both raise awareness of their plight and trigger innovative solutions. The first step is to understand the key areas of need for these groups:

Sandwich Caregivers' key areas of need

Health care

More caregivers who are struggling to cover the cost of childrearing also end up caring for aging family members at home,[19] operating as extensions of the health care system and adding to the stress of their dual role.

As people age, health care needs increase and so do the cost of these services, perhaps more so for Sandwich Caregivers who may experience earlier or more severe health challenges due to the effects of stress, including obesity, weakened immune systems and chronic disease[20].

Current available health care options often fall short because they are too expensive, do not cover long-term care expenses or are too difficult to qualify and apply for.

Family dynamics

Interpersonal dynamics between family members can be tense, but the situation can be even further amplified for Sandwich Caregivers. A heightened emotional challenge results from losing a spouse or a parent, late-life divorce or a spouse's declining health — scenarios that are even more likely with this group.[21]

Family dynamics (cont'd)

Disagreements between adult children regarding how to care for aging parents may add to the stress, especially when diminished capacity may lead to a struggle between what an aging parent says and family members feel is best. Spouses and partners also may clash over caregiving responsibilities, as they attempt to split their time and energy between work and family.

Housing

Sandwich Caregivers may find the need for a larger home or for renovations to accommodate the needs of the aging family member who has moved in for necessary care. The alternative is moving the family member to an out-of-home facility, which may result in excessive costs that caregivers may need to help cover, further jeopardizing their own retirement savings.

Employment

As Sandwich Caregivers juggle work and caregiving, many leave their careers to focus full-time on caregiving and may be forced to tap into savings to keep up with expenses, further impacting their preparations for the future. When trying to go back to work they may find barriers to re-entry to the workforce, including having to take a lower salary.[22]

Sandwich Caregivers who remain at work experience an impact on their career growth due to their dual responsibilities that also could affect their ability to prepare for retirement.[23] Caregivers may be perceived as being less competent and committed to their work and may lose status as a result.

Wealth

Sandwich Caregivers are further challenged with finding the time to manage their day-to-day responsibilities and the cost of their dual caregiving roles. Spending an average of up to 24 hours per week providing care[24] limits the time spent doing future planning. Caregivers report spending up to $825 per month out of their own pocket paying for medical expenses, home essentials, equipment and other resources to ensure their loved ones receive proper care[25], money that won't be added to a retirement nest egg.

These unique financial challenges may cause Sandwich Caregivers to have lower levels of retirement assets[26] because they have been forced to prioritize day-to-day spending over saving. In addition, a lack of emergency funds may lead to retirement savings being tapped. Added to the cost of caring for an aging family member is the potential debt that Sandwich Caregivers may end up carrying to help pay for their children's post-secondary education.

The current lower savings rate results in a need to accumulate more assets to cover longer life and corresponding health care costs, as caregivers generally experience greater health decline due to the stress of their responsibilities. Lastly, cognitive decline, which likely will accompany physical decline, could make them a target for fraud.

Career Extenders' key areas of need

Health care

As technological and medical advancements allow people to live to ever-increasing ages, individuals find themselves having to work longer to keep up with the growing length and declining health of the retirement years, coupled with rising costs in key areas such as health care and prescription medications. Career Extenders are forced to continue working past the traditional age in order to save more to better support their lifestyles.

Additionally, long-term care facilities continue to grapple with long-standing staffing problems, creating an unbridgeable gap between the number who will need their services and the number of beds to accommodate them in the future.

Family dynamics

Career Extenders are more likely to have to deal with the loss of a spouse — and the accompanying grief and loneliness — with no real understanding from younger coworkers who are less likely to have experienced a similar loss.

Aggravating the loneliness, adult children likely are more geographically spread out, with one shouldering more of the caregiving responsibilities while others feel they are being excluded from decision making, leading to resentment.

Housing

Career Extenders who remain busy in their careers through their children's growing years may downsize or move to be near grandchildren. Most will try to age in their own homes, resulting in extra maintenance, rooms and costs associated with keeping it up. Additionally, as they require more support and care, the house may no longer meet their needs, necessitating modifications and in-home care assistance[27].

Employment

Extended careers may facilitate access to valuable protection as part of employee benefit packages that can supplement a long-term financial plan, but once retired more advanced age may make obtaining these coverages exorbitantly expensive. On the other hand, traditional employee benefits that are heavily focused on young families may not support the short-term financial goals of Career Extenders nor will they provide a fix for their more immediate long-term care needs.

Those who choose to work past their normal retirement age may begin to experience workplace discrimination — such as being overlooked for promotions and salary increases — that may impact retirement savings, as well.[28] Career Extenders who start a second career also may face employment challenges, such as a perceived lack of up-to-date skills or need for training.

Wealth

Many Career Extenders may need to take advantage of "catch up" contributions to boost savings and overcome an estimated shortfall while looking for investment products that both maximize return and minimize risk. In addition, employees over age 72 will start receiving required minimum distributions from retirement plans — and paying taxes on them. Many lack a clear strategy of how to put the money back to work for them.

Career Extenders also may experience greater health care costs earlier on in their retirement due to their more advanced age. Lastly as with others groups, cognitive decline could make them a target for fraud.

Solutions tailored to unique needs

Both of these emerging groups in the U.S. are facing elevated or new challenges in planning for the future. As a result, upgraded and unique solutions are important to help raise their awareness about the importance of future planning that needs to be put in place long before it will be required. Education materials and step-by-step guidance tailored to their unique challenges should be readily available when and where they need them.

Help wanted: challenges facing Sandwich Caregivers and Career Extenders

Education and step-by-step guidance on the following topics would be of particular interest to Sandwich Caregivers and Career Extenders to help them address those challenges that are most pressing to them:

- Caregiving support and resources to lessen the significant emotional, physical and financial effects of providing care.
- Long-term housing planning, including home modifications, group residential housing, assisted living arrangements and skilled nursing facilities.
- Taxation, including how to manage taxation of required minimum distributions.
- Managing health care costs, including preparing for long-term care for themselves and their loved ones.
- Death of, or divorce from, a spouse.
- Family dynamics, including enlisting the support of family members for future plans.
- Prioritizing spending and saving and boosting investment returns.
- Strategies to increase Social Security benefits.
- Employment, including maximizing employee benefits, salary and retirement savings.

Education and guidance must be backed up with tangible, specific solutions needed to help Sandwich Caregivers and Career Extenders prepare a long-term plan for the future. The following existing or developing solutions may be particularly useful:

Investment and retirement income products

The current investment and interest rate environments have changed the way many of those who are nearing retirement approach investing and have prompted a search for reliable income once retired. Tools that better assess risk tolerance, new investment strategies with downside protection and guaranteed lifetime income options are on the horizon to meet this increasing need.

Employee benefits offerings

Subsidized employee benefits provide a key opportunity to help ensure healthcare costs are predictable and provide other life insurance and wellness benefits that may not be available to retirees and caregivers who have left the workforce. Options such as employer-paid back-up care and Employee Assistance Programs can free up resources for retirement savings while positively impacting quality of life. Employee benefits also can supplement government benefits.

Government benefits offerings

A variety of state and federal benefits are available to provide assistance with income, medical and healthcare, residential and housing and educational and vocational needs. Lesser known benefits such as Medicaid Waivers may help provide services to people in the community who would otherwise be in an institution, nursing home, or hospital to receive long-term care. Maximizing traditionally recognized retirement benefits through Social Security and Medicare takes careful planning that begins well before becoming eligible. Medicaid covers the cost of most long-term care, which Medicare does not cover, but because eligibility and the application process for this coverage is extended and complicated, a strategy also must be in place years before it is needed. Coordinating employee and government benefits may help better leverage existing assets.

Long-term care products

Newer more affordable hybrid products combine elements of life insurance or annuities with long-term care insurance to provide a way for people to protect against multiple risks.

Health Savings Accounts (HSA)/Flexible Spending Accounts (FSA)

The high price of health care in retirement coupled with the need for caregivers to pay for services for the person for whom they are caring — therapies, accessibility devices and modifications — has resulted in increased demand for these tax-advantaged savings accounts.

Debt mitigation programs, especially student loan debt

Americans are carrying tens of trillions of dollars in debt, which can prevent saving for retirement, and people nearing retirement have the greatest debt. Solutions to help manage and reduce debt need to be flexible and customizable to meet individual's needs. However, perhaps the best way to manage debt is to avoid it, so financial wellness programs that promote proactive money control can help eliminate future debt.

Emergency savings solutions

Focusing on emergency savings helps promote holistic financial wellness and enables individuals to build retirement savings while also being able to absorb short-term financial shocks and disruptions in income. These savings programs must do more than help increase emergency savings so that retirement savings are not tapped in an emergency, but should include education and guidance, as well.

ABLE, Individual Retirement Accounts (IRAs) and Roth IRAs

Caregivers generally need more retirement savings because the additional cost of providing care has limited their ability to save. In addition, they need more retirement income to provide not only for their own lifetime income, but also for care of a loved one with a disability once they no longer can provide that care — a period of time that can extend into decades. IRAs and Roth IRAs are ways to put away money outside of a pension plan to supplement retirement income, and the income paid out from Roth IRAs also is tax free to help boost "take-home pay" in retirement. ABLE accounts can be a great way to set aside savings for eligible children and adults with disabilities, lessening the need for withdrawals from accounts earmarked solely for retirement.

Pooled trusts, special needs trusts and Medicaid/disability trusts

When caregivers are planning for the future of a family member with a disability, they must be careful to maintain government benefits eligibility, while accumulating assets for their care. Special needs trusts and pooled special needs trusts allow people under age 65 to receive gifts, inheritances, settlements and other assets, while continuing eligibility for government benefits. Medicaid, disability and other irrevocable trusts help people preserve their estates for their heirs, even when they need expensive skilled nursing care.

In conclusion, Sandwich Caregivers and Career Extenders are unique in the challenges that they face when planning for their future health and wealth, and the Voya Cares program is uniquely positioned to lead the conversation addressing these challenges. Traditional financial planning advice may not be well suited to counteract the challenges confronting Sandwich Caregivers and Career Extenders. The special needs planning process may be a better short-term solution to meet their singular needs. As Sandwich Caregivers' and Career Extenders' ranks multiply, their needs cannot be ignored, and the financial services and fintech industries, with Voya Cares in the lead, must work together to develop innovative and individualized health and wealth solutions to ensure all Americans can retire well.

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