



The general rule of thumb in the financial planning community is to assume your living expenses will be reduced by 30% upon your retirement, factoring in reduction in car expenses associated with commuting to work, reduction in clothing and dry cleaning expenses, dinners out (due to lack of time to prepare evening meals) and a slew of other “cut-backs” at retirement. However, we have found through discussions with our affluent clients that the exact opposite is true...expenses usually INCREASE at retirement, hopefully through well-earned enjoyment of leisure time, spending more time with family and friends, travelling and exploring interests for which the building of a business or a career did not allow time, but also for increased health-related expenses.

LONGEVITY

First, the good news! Medical advancements and people generally taking better care of themselves has increased longevity. In 1960, a 65-year-old man was only expected to live on average to age 78. Today the average is 82-83. And, 35% of 65-year-olds will hit age 90 and 10% will live beyond age 95!



Now, for the bad news. This increased longevity results in a considerably longer time period to cover living expenses on retirement income. And, for a great deal of people, their later years will require expensive assisted living or home health costs.



It has been estimated that a 65-year-old couple that retires in 2024 will need \$340,000 to cover basic health and medical costs in retirement, which doesn't factor in the increasing possibility of dementia and Alzheimer's disease that will require specialized care for several years. Overall, Alzheimer's affects 10% of people age 65 and older and approximately 33% of people age 85 and older.

Therefore, it is imperative that you base your retirement planning on an expense amount higher than your pre-retirement living expense level to ensure you will be able to meet all of your objectives throughout a very long retirement with the possibility of expensive changes in your lifestyle. Think through all the things you immediately want to do, as well as goals and desires far out in the future to weave into your retirement planning.

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TIME TO REAP THE REWARDS

Travel

Location and time spent are no longer an issue without the constraints of career and family responsibilities or tending to the business you have so diligently developed over your lifetime. Long trips to faraway luxury destinations are now a possibility. Generally, the annual travel budget for high net worth families is between \$100,000 and \$250,000. However, for the very wealthy, vacations can cost over \$500,000. Travel expenses tend to far exceed inflation of most other expenses (6% vs. 2.5%). Costs rise substantially when private jets, yachts and specialized travel agents are utilized, let alone purchasing said jet or yacht with the ongoing costs of maintenance, upkeep, insurance and crew. You should also factor in expenses if you will be treating multiple family members to join you on your adventures!



Gifting

Your children and grandchildren could be at an age that an annual exclusion gift of \$18,000 (maximum amount as of 2024) could be immensely helpful towards a down payment on a home or the start-up expenses of a business. Education or medical costs paid directly to the institution are not considered a gift, but if you have chosen not to go that route, your family could benefit greatly with annual exclusion gifts that could be applied to tuition or student loans. Education and medical costs tend to outpace inflation by 2-3%, making these expenses a tremendous burden to many.

Gifts are simultaneously providing you with a technique to reduce your taxable estate for future tax exposure. This might be the perfect time to maximize gifts from each of you to unlimited family and friends.

Charitable giving may be a huge focus for you during non-working years, as you finally have time to immerse yourself in establishing a foundation, creating a family mission statement and researching suitable donees to benefit from your foundation. Your changing tax situation will need to be taken into consideration as you plan to make substantial gifts now and for years to come.

New Home Purchases or Renovations

Rather than downsizing, you may be in a position and still active enough to want to establish vacation homes and home renovations that have been put on the back burner during your



working years. Living expenses may be increased substantially with the addition of a new home with possible mortgage, additional furniture, liability insurance coverage, utilities and travel to and from additional home(s) to consider.

Even if you decide to downsize, possibly to a luxury retirement community, monthly fees can be as high as \$18,000 per month with \$2 million buy-in fees, depending upon location. Others may average more in the \$4,000 per month range with a half-million buy-in, but you will want to be prepared to spend the high-end level if you find the perfect spot to enjoy retirement in a high-cost community.

PLANNING FOR THE INEVITABLE COSTS OF A LONG LIFETIME

Medical Needs

If you have not already done so, you may want to obtain medical concierge services. These services will allow you to be seen immediately, or even receive a house call, by your doctor. Annual fees can cost anywhere from \$4,000-\$80,000. You may also desire preventative tests, such as full body scans, genetic testing and comprehensive health screenings which can add up to thousands of dollars. Take into account the possibility of reconstructive surgery and other procedures when forecasting medical expenses. Expenses will need to be coordinated with what Medicare covers. For example, Medicare obviously does not cover concierge fees.

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Long-Term Care Needs

Approximately 70% of people currently turning 65 will require long-term care in their lifetime, and they will receive care for an average of three years. This statistic is important to know when thinking about your parents’ care and your own care in the future when factoring in the possibility of long-term care and modeling age-related expenses. High net worth individuals have the luxury of selecting the best care possible that suits their wishes and needs. The luxury retirement communities mentioned above can be costly, with most providing different levels of assistance as you age and your needs increase.

However, many affluent people prefer to age at home. Some will need limited assistance with housecleaning, errands, cooking and basic medical aid of only 20-40 hours per week. Others may need round-the-clock care and someone skilled in all medical situations, running costs to well over \$250,000-\$300,000 annually.

Keep in mind that even though your day-to-day needs are being met by one or more trained professionals, you may still have the ability to travel and do other activities that will not be included in what otherwise is considered an “all-inclusive” living arrangement.

CONCLUSION

The discussion of these extraordinary expenses is intended to encourage you to think broadly about what the future might hold for you when determining the level of expenses you would



like your portfolio to support during your retirement years, while also meeting any of your other objectives with regard to your legacy. The FOS Technical Team can perform projections reflecting the living expenses you might incur in your retirement years, family and charitable gifts you would like to make and details regarding the sale of a business or exiting benefits from the company in which you have been employed. Based on the results of these projections, collaborate with your group of advisors to ensure you have the portfolio needed to support these goals and objectives.

For the affluent client, retirement shouldn't be thought of as a time to economize and live on a fixed income in hopes that living needs will not surpass your portfolio; it should be a time to enjoy the fruits of your labor, ensure your health and happiness and fulfill gifting and inheritance objectives.

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In the Wealth Council Insights Education Series, we endeavor to deconstruct some of the complexities that exist around many commonly utilized estate and financial planning concepts in order to provide you and your family with the basic knowledge needed to better understand and create a blueprint for your overall wealth enhancement needs.