Longer life expectancies straining retirees' budgets

Medical and other expenses now extend over much longer period

By Armina Ligaya, CBC News
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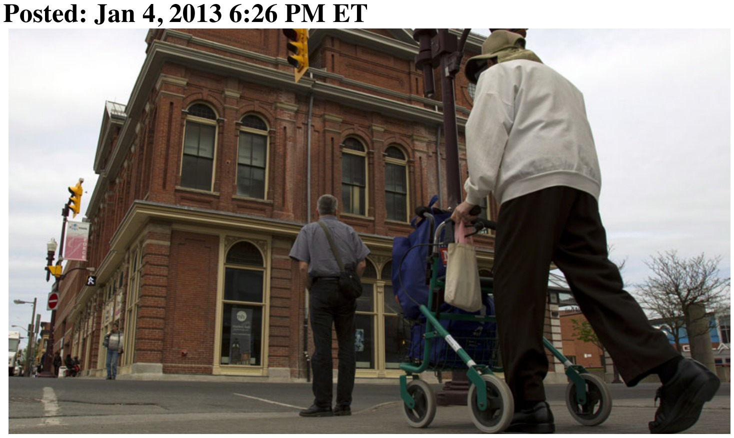

As Canadians increasingly live longer, into their 80s, 90s and beyond, people are being advised to budget more money for their golden years, particularly for medical expenses. (Frank Gunn/Canadian Press)

Gerda Kaegi considers herself pretty lucky – at 80 years old, she remains quite active and has a pension and health plan through her former employer, which help to cover her and her husband's medical costs.

But she has cause to worry. Her husband, Hans-Peter, is more than eight years her senior and had a stroke in recent years. And as she gets older herself, she is concerned about health-care expenses down the line.

"What happens if one of us has to go to long-term care?" says Kaegi, a political activist and former Ryerson University professor. "I work and I'm lucky, I have some money. But I worry because I have friends who are paying a lot of money for someone, a partner, a husband, in long-term care."

Canadians are, on average, living longer — a positive development in part due to medical advances and healthier lifestyles.

In the 1970s, the average Canadian male and female life expectancies were 72 and 79, respectively, according to Statistics Canada. By 2009, those life expectancies had reached 77 and 82.

But as longevity increases, seniors are having to budget more money for their golden years. These expenses include medical costs not covered, or only partially covered, by government plans, such as certain medications, dental services and long-term care in retirement homes or nursing homes.

Experts advise budgeting enough to live into 90s

When plotting out retirement savings plans, financial advisors are increasingly advising their clients to budget enough to cover their expenses into their 90s or even past 100, said Greg Pollock, chief executive of Advocis, also known as the Financial Advisors Association of Canada.

"It wasn't all that long ago you would plan for someone to live into their 80s, and generally speaking, they would be fine," Pollock said.

"Now, you have to plan for someone living into their 90s, and that takes a lot more resources."

And of those who are living longer than their predecessors, some will suffer from chronic illnesses that come with additional costs, said Judith Cane, an Ottawa-based financial adviser with Money Coaches Canada.

Conditions such as arthritis and cardiovascular diseases might require medications, extra treatment, additional help around the house and specialists – things that are not completely covered by the government or retired employees benefits plans, and must be paid out of pocket, Cane said.

Financial products geared to elderly needs

Retirees could once count on having fewer expenses in their later years, after mortgages were paid off or after downsizing to a smaller home in a less expensive area. Now, with funds needed for medical care over an increased period of time, this may no longer be the case, said Cane.

In addition to counseling her clients to have a larger overall nest egg for their retirement years, she is advising that clients who can afford it should set up a savings account earmarked for medical expenses, she said.

"It's a bit of an emergency fund, for some kind of medical care … maybe they don't want to wait for an MRI, or maybe they need extra physiotherapy. They don't have to wait or take it out of their monthly cash flow," she said.

Canadians can now buy long-term care insurance plans, said Harley Lockheart, a financial advisor at Quail Ridge Financial Services in Kelowna, B.C. This has been available in the U.S. for years, but only within the last decade has it been offered in Canada, he said.

It's a sign the financial industry is recognizing the large cohort of seniors and soon-to-be seniors as a market, said Lockheart.

"Twenty years ago, I don't think you could even buy long-term care insurance in Canada, which has long been available in the U.S.," he said. "There's been a development of product to look after this market. And certainly with the demographic of the [baby] boomers moving through, it means that there is a very much greater percentage that are going to be in that senior age bracket."

Canada has high proportion of seniors

The latest census data show that Canada's population has a higher proportion of seniors than ever before, Statistics Canada says.

The population of those over the age of 65 has surged to nearly five million over the past five years, growing 14.1 per cent since the last official count, according to 2011 data.

Canada's population has a higher proportion of seniors than ever before, according to 2011 census data, with those over the age of 65 has surging to nearly five million over the past five years, an increase of 14.1 per cent. (Chris Young/Canadian Press)

Near-seniors — people aged 60 to 64 — grew faster than any other group. Their population soared 29.1 per cent over the past five years, a pattern that will persist as they move up the age ladder.

They are the oldest edge of the baby boom generation that comprises three out of 10 Canadians.

This cohort of older Canadians puts pressure on government health-care budgets and floods existing long-term medical care facilities.

"Not only are the demographics moving through and advances in medicine allowing people to live longer… we have, at this stage of the game, care facilities that are full, and the [wave of] Baby Boomers haven't even hit yet," said Lockheart.

Meanwhile, insurance carriers in the U.S. are starting to back away from offering long-term care plans because of the hefty costs associated with paying the benefits out, he said. "They're not denying claims, but they're not selling more to new clients. And that's an indicator of the costs of care becoming very, very expensive," Lockheart said.

Costs put strain on fixed incomes

Other expenses, even when covered by the government, can be steep, said Jane Meadus, a lawyer with the Advocacy Centre for the Elderly, who specializes in long-term care homes in Ontario.

For example, when buying a wheelchair in Ontario, 75 per cent of the cost is typically covered by the government, she said. However, that remaining 25 per cent can be very expensive – in the thousands of dollars – and a major strain on a retiree's fixed income. "The systems aren't really dealing with how people who end up with long-term care are supposed to pay for these items," Meadus said.

Some analysts have warned that age-related costs including pensions, health care, unemployment insurance and long-term care will put immense strain on Canada's finances.

Ratings agency Standard and Poor's warned in January last year that as a result of the country's aging population, these expenses would push Canada's net debt to grow by 260 per cent from 2030 to 2050, and even result in a credit downgrade.

However, the Canadian Institute for Health Information said in a report in October 2012 that population aging was a "modest cost driver overall," accounting for just 0.9 per cent of average annual growth in spending from 2000 to 2010.

While there are differing views on the impact of seniors' health care costs, older Canadians must prepare for the possibility that they may have to dig into their own pockets to cover these expenses, said Lockheart.

"We know that governments are looking for money now, where are they going to find the money to deal with these things?" she said.

"It's a real concern for planners to make people aware of the fact that they're going to have to deal with this issue, and probably, are going to have to finance it to a large degree from their own resources."