

## **New Lincoln Retirement Institute Survey Cautions Boomers about 'Overconfidence Effect,' Offers Warning Signs of the Potential to Veer Off Track**

PHILADELPHIA, June 3, 2008 -- Despite popular belief, boomers are overwhelmingly prepared to make the most of their journeys through retirement. However, even as they put their financial plans into place, most are ignoring the potentially devastating expenses associated with long-term care, according to a new Lincoln Retirement Institute (LRI) survey. Take-charge baby boomers are knowingly ignoring the signs of a significant retirement detour. The so-called "Overconfidence Effect" keeps the baby boomer generation from acknowledging the emotional and financial tolls long-term care challenges can bring.

"This LRI survey uncovered a dichotomy between what boomers envision for their personal retirement futures and what they expect their peers to face in retirement," said Bobby Greenberg, director of the Lincoln Retirement Institute. "Long-term care is a tough topic for people to face - one that many would rather not think about or plan for - yet 85 percent of those surveyed acknowledge that it would be much wiser to purchase long-term care insurance to protect themselves and their loved ones. Ultimately, we'd like to see this survey help baby boomers better navigate retirement."

Other key findings from the Lincoln Retirement Institute survey that illustrate the Overconfidence Effect in boomers:

- Fifty-nine percent of boomers think others should prepare by purchasing insurance for the possibility of needing long-term care, yet only 35 percent say they are using insurance as one of their own preparations.
- When asked what they are doing to prepare themselves for potential long-term care needs, boomers are typically overly optimistic and more likely to say they are focused on such unreliable measures as maintaining a healthy lifestyle (54 percent), investing to get the highest possible return (40 percent) and saving additional money to cover long-term care (39 percent) instead of heeding their own advice to other boomers and purchasing insurance.
- More than 40 percent of those surveyed estimate the average 65 year-old has a 60 percent chance of needing long-term care for three months or more at some point in time, but only 30 percent said they run the same risk in the future.

"Boomers and financial advisors have pointed to 'outliving one's savings' as the most challenging retirement issue and do not consider long-term care as a first-tier financial priority," said Anand Rao, a partner in the insurance industry practice at Diamond Management and Technology Consultants, Inc. which helped interpret these survey results. "Baby boomers tend to compartmentalize their decisions about wealth and health, ignoring the impact of one on the other. The fear of making a wrong and irrevocable turn in long-term care insurance paralyzes them from taking any action at all, thus undermining their intention to proactively plan for long-term care needs. Surprisingly, this fear far outweighs the 'peace of mind' they would experience from having long-term care insurance."

### Mapping Out Retirement

The Lincoln Retirement Institute survey examined attitudes and behaviors of both baby boomers and financial advisors concerning money management and long-term care. Boomers are planning ahead and mapping out the best road to take to achieve their retirement goals, while not addressing the significant retirement risk of long-term care.

- When asked to assess their retirement planning efforts, six in 10 boomers stated they have calculated how much money they would need for retirement, and two-thirds of those surveyed reported they have financial plans in place.
- Almost all baby boomers (94 percent) feel that being able to afford some type of nursing care is important; they are less likely to say that this goal is as important as having

- enough savings and investments to last as long as they live, being able to afford adequate health care, and making sure they do not have to rely on family members for financial assistance.
- This ranking of values correlates with the conversations that virtually all advisors surveyed report having with their clients about financial planning: They specifically mention the number of years their clients might live in retirement, how much annual income they will need to maintain their desired lifestyle, and preparing for inflation.

"Boomers may not be planning for long-term care, but they are thinking about it, which is the first step. This is especially true for those who have experienced the challenges of long-term care first hand alongside a friend or family member. These boomers are more likely to assume they have a higher risk than their peers of needing this type of care in the future. Addressing their long-term care concerns today with the help of a financial advisor will go a long way in easing this fear and ensuring their needs are met in retirement," said Matt Wroblewski, director of research at Lincoln Retirement Institute.

### Navigating the Best Course

Many boomers are relying on self-insuring to fund long-term care expenses. As they go their own way, they do so not fully understanding the limitations of other funding resources such as Medicare and Medicaid. Dependence on these inadequate subsidies will result in boomers needing to find alternate routes in footing their long-term care bills.

- More than 80 percent of boomers surveyed say they know that long-term care costs could significantly reduce their retirement income and assets, yet 73 percent plan to use their savings or investments to cover the costs versus insurance.
- Furthermore, two out of three boomers say that the cost of long-term care could force them to sell their home, a scenario that may have additional ramifications in today's economy.
- Nearly half of those surveyed state they will use Medicare (49 percent) and health insurance (45 percent) to help pay long-term care expenses, however, boomers are overestimating the impact these sources may have on covering total long-term care costs.
- Alarming, substantial proportions of financial advisors say people typically use Medicaid (63 percent), Medicare (52 percent), and health insurance (32 percent) to pay for long-term care; when in reality these funding sources are likely to pay only a small fraction of long-term care costs, leaving boomers financially exposed to unexpected and significant cost expenditures.

"The survey discovered boomers have a learning curve when it comes to understanding the scope of coverage Medicare and Medicaid provide for long-term care needs. For instance, more than 90 percent of boomers stated that they would prefer in-home nursing assistance if needed, most likely without thought for the substantial coverage gap these funding sources may create. Being prepared in advance and knowing the facts can have a monumental impact on a boomer's care preferences, as well as quality of life and ability to leave a legacy," said Greenberg.

### Requiring Road Side Assistance

Just as getting an oil change and tire rotation before a road trip is common practice, many boomers forget that a regular tune-up can also safeguard their retirement journeys. The survey uncovered a disconnect between boomers' attention to day-to-day health care expenses and long-term care needs.

- Eighty-nine percent of survey respondents say they have incorporated day-to-day healthcare expenses (such as health insurance and prescription drugs) into their financial plans, while only 63 percent have thought through how they would cover the costs of nursing home care.

- This separation is further supported by the fact that prescription coverage is viewed as "very important" by 82 percent of respondents. In contrast, only 60 percent of boomers rate in-home nursing care and nursing home care at that same level of significance.
- When meeting with clients about their retirement plans, financial advisors show a slight tendency to discuss day-to-day health care expenses (85 percent) more than costs associated with nursing care needs (80 percent).

"It is encouraging to see boomers discussing near-term healthcare expenses and at least thinking about long-term needs as they meet with advisors to plan their retirements. Advisors can provide the guidance boomers appear to need: They are in tune with the long-term care epidemic as 88 percent expect their clients' need for long-term care will increase over the next 10 years," said Greenberg.

Boomers are approaching their golden years with the anticipation of realizing their retirement dreams. This survey highlights the importance of planning for the future with pragmatic optimism. By acknowledging the Overconfidence Effect, boomers can take the necessary actions to plan properly for future needs.

"The Lincoln Retirement Institute has helped boomers understand the importance of financial planning; however, it is only effective when objectively assessing all retirement risks such as accounting for market volatility, ensuring lifetime income, and reviewing potential long-term care needs. Boomers will need to rise above this Overconfidence Effect in order to make critical choices that could impact their long-term retirement goals. To avoid making a wrong turn, it is important that boomers work with a financial advisor to help them set their retirement planning course with both holistic health and wealth perspectives in their sights," concluded Greenberg.

#### About The Survey

The survey, sponsored by the Lincoln Retirement Institute, was conducted by Mathew Greenwald & Associates, Inc., a research firm in Washington, D.C. The December 2007 online interview survey was conducted with 1,011 adults 50-70 years of age, who have household incomes of at least \$75,000 or total household financial assets of over \$250,000 (not including the value of home or other real estate) with a margin of error of +/- 3.0 percent at the 95 percent confidence level. Information for the advisor study was gathered through telephone interviews with a total of 226 respondents who have been working as financial planners or advisors for at least three years and earning at least \$50,000 from the sale of financial products. The margin of error for the advisor survey is +/- 11 percent.

#### About The Lincoln Retirement Institute

The Lincoln Retirement Institute, an organization within Lincoln Financial Group, was created to conduct research, organize the intellectual capital of the company and work with external thinkers on retirement subjects that are relevant to the baby boomer generation. Please visit [www.LincolnFinancial.com](http://www.LincolnFinancial.com) for additional survey findings and research, interactive tools, calculators and real-life scenarios, fresh content and pertinent information.

#### About Lincoln Financial Group

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