"FOR BOOMERS ONLY"

Edition #6

NOW WHAT?

In June of 2008, our "For Boomers Only" update posed the question, "What are we to do in the face of this recession?" That article recognized the declining economy and its impact upon Baby Boomers and their aging parents. Although storm clouds were clearly looming on the horizon, there was little evidence that the global economy would suffer the type of collapse that has come to pass.

In that article, we offered advice on how to prepare for the potential of a recession. Much of that advice proved to be insightful for what has transpired in the past year. What we have seen, particularly since September of 2008, is the most challenging period in history for Boomers. It has also been devastating for many of their parents.

One of the most conspicuous effects of the current recession is the fact that hundreds of thousands of American seniors have postponed a much needed change in lifestyle. In response to declining home equities, portfolio losses, and declining interest rates, seniors have overwhelmingly become frozen in place. Even those who have become widowed or have suffered minor disabilities have elected to do nothing until they are confident that they have seen the worst of this recession.

As a result, several new realities have emerged. Among them are the following:

1. ***Most seniors are now reevaluating and recalibrating their expectations for the remainder of their lives.***

2. ***Estate planning has become secondary to life planning.***

3. ***There is a total absence of new senior housing communities in the development pipeline.***

4. ***Changing healthcare programs and Medicare could materially affect asset allocations in the future.***

Today's seniors have, by and large, managed their financial affairs in such a way as to live their lives from the return on their investments, pensions, and social security. With this recession, such an objective has become impossible for many. From lower home equities, to investment losses, to miniscule returns on CD's, every aspect of their financial planning has been disrupted. Many of them can no longer afford the lifestyle that they envisioned.

An additional challenge is that their adult children have also been affected by the recession. The option of family support is oftentimes not available in today's world. The result is that many seniors are simply accepting the fact that their "Golden Years" will be very different from what they had imagined. They have endured hardships before and they are stoically accepting the harsh realities that may confront them.

For many, the decades-long commitment to estate planning has been replaced with financial planning of a different kind. A realization that they must now "spend down" a portion of their estate has led to the big question, "***Will I outlive my money?***" Baby Boomers are considering how changing estate expectations, investments, and earnings potential will influence their own retirement planning. Simultaneously, they are wrestling with the issues surrounding their aging parents. Unlike the period before this recession, a majority of seniors will now need to "spend down" a portion of their assets in order to enjoy the lifestyle which they prefer. Updated professional planning is becoming essential for most.

Another aspect of the recession is the fact that new construction of lifestyle alternatives (such as assisted living, independent living, and continuing care retirement communities) has come to a virtual standstill. The likelihood of any new developments prior to 2012 is extremely remote. When the housing market and employment begin to recover, the majority of available senior housing units will be quickly absorbed. With the overwhelming demographics, the pent-up demand that is being created by this economy, and the fact that owners will have significantly higher interest costs going forward, availability and selection will shrink and costs will invariably increase.

In addition to the foregoing, seniors must face the uncertainties of pending healthcare legislation. The likelihood of there being a meaningful cut in Medicare benefits is great. The result will be that most seniors will be responsible for paying a progressively higher portion of their medical costs. This factor is today's great wild card and seniors are justifiably alarmed by the prospect of what is being proposed.

As always, it is Parc's goal to prepare its customers for whatever the future may bring. In these uncertain times, it has never been more important for families to openly and candidly discuss the realities that exist. Although none of us can forecast the future, you must make decisions based upon realistic, but conservative, mortality assumptions. In most instances, our suggestion is to simply double the conservative forecast.

If your parent is 80, data suggests that he/she will live for an additional six years. The logical approach would then be to assume a 12-year "spend down" of available funds. Your financial advisor will be glad to assist you with these calculations. Don't forget that interest rates will eventually rise and that your parent's financial position could improve dramatically over what they are experiencing today. A number of interest rate forecasting websites are readily available. Each of these is predicting dramatic rises in interest rates commencing in 2011.

The real issue is the age-old question concerning quality of life versus preservation of capital. Families are now recognizing that they simply cannot have their cake and eat it, too. If your parent's happiness is more important than the size of their estate, you will never have a better opportunity to select the ideal setting for their future. While they may be satisfied to "stay put" until they are able to trust this economy, "staying put" will often deprive them of the joy of reconnecting socially and being pampered for the remainder of their lives. It is undeniable that seniors living in a service-enriched congregate community live longer and are happier than those who do not.

Regardless of the perceived challenges, Boomers must assert themselves. We cannot transform our parents' longstanding commitment to leave a legacy, but we can clearly communicate that their happiness is a higher priority than the size of their estate.

Since occupancy in senior communities has fallen throughout this recession, owners have foregone rental increases and have extended concessions to new residents. These phenomena will not last much longer.

As with residential real estate in general, the market appears to have reached a bottom in the second quarter of 2009. When the overall market begins to improve, senior communities should quickly recover.

The next two quarters will likely represent the most outstanding buying opportunity for the remainder of your parents' lives. Whether they can best be served by assisted living, independent living, or a continuing care retirement community, you will never regret encouraging your loved ones to make this important lifestyle decision while they have a great selection of living units and values abound.