Health & Retirement Services of Illinois
Newsletter January 2024

OUR NEWS LETTER HRSI

Unretiring: More retirees are going back to work because they want to — or need to

Richard Eisenberg retired in 2022.

At 65, he stepped away from his job as managing editor for "Next Avenue," the PBS website for people over 50, where he had worked for a decade.

"I had a rough idea of what my retirement would be," Eisenberg told Yahoo Finance. "I knew I would be 'unretiring' since I still wanted to be doing some writing, some editing, and some teaching, but not all the time."

So far, he has. Eisenberg, who lives in Westfield, N.J., explores "unretirement" in his expert columns, podcast and teaching posts, including an online NYU master class.

"I'm seeing a lot of curiosity about the idea," he said. "I'm still a little surprised that it seems like such a foreign concept to people."

A growing number of retirees like Eisenberg have stepped off the sidelines and headed back to work, especially after many were forced to retire in the pandemic, according to a new report from T. Rowe Price. Around 7% of retirees are looking for work in retirement, while 20% say they're already working part time or full time.

"In 2021, during the pandemic, that percentage was 10%," Judith Ward, a certified financial planner and thought leadership director at T. Rowe Price, told Yahoo Finance. "They might have been forced to retire, and now we're seeing that they are reentering the workforce."

In Our Newsletter

The two main reasons for coming back into the workforce are a tale of opposites. While 45% chose to work for social and emotional benefits like Eisenberg, a slightly larger percentage — 48% — felt they needed to work for financial reasons.

Older adults, those age 65 and older, represent the fastest growing group of homeless, while poverty among older Americans has escalated. Policymakers and researchers have also been fretting that the share of older Americans with debt has risen from 38% to 63% since 1990, according to a recent report by the Center for Retirement Research at Boston College.

"Many people retired during the pandemic for a variety of reasons and the financial reality of that is now hitting home," Chris Farrell, author of "Unretirement" and "Purpose and a Paycheck," told Yahoo Finance. "Working even a few hours a week can help shore up household finances."

"They're taking advantage of the tight labor market to unretire, often by picking up part-time work, flexible gigs, starting their own business, and even encore careers," Farrell said.

Damascus, Md.-based resident Gary Socha, 69, who retired after being laid off during the pandemic from his publishing job, stepped back in two years ago and is now working part time, four hours a day, as an advertising and event representative.

"It was too early, and my wife is five years younger and still working," Socha told Yahoo Finance. "And financially... it just seems to make sense to make some more money and make yourself a little bit more secure and more comfortable for when you do retire. I could see doing this for quite a while."

For other retirees, the lack of retirement planning or saving is coming back to haunt them.

"It's not uncommon for people to retire without having actually made a retirement plan, and then find some financial surprises along the way," Mark Miller, a retirement expert and author of "Retirement Reboot," told Yahoo Finance. "That can prompt some people to go back to work. And the faster pace of inflation we've been experiencing also is motivating some people to go back to work, just to help cover their living expenses."

How much wealth you have to tap, of course, is the lynchpin. There's a huge difference by household assets when it comes to retirees who say they "don't need to work," according to the T. Rowe Price report, which surveyed 2,895 401(k) retirement plan participants and 1,136 retirees with a Rollover IRA or a left-in-plan balance.

The report found 37% of retirees with household assets under $50,000 said they don't need to work versus 55% of those in the $50,000-to-$250,000 category and 72% with assets of $750,000 and above.

Women are particularly vulnerable. In the report, 49% of retired women who were working or looking for work said they need the money compared to 41% of men.

One reason is that many women have less savings to depend on in retirement and lower Social Security benefits because of time out of the workplace for caregiving.

"Typically, lower incomes, higher debt loads — especially student loans — and shorter job tenures are some of the factors contributing to the gender savings gap," Sudipto Banerjee, T. Rowe Price's vice president, retirement, and author of the report, told Yahoo Finance at the WISER Annual Women's Retirement Symposium.

The biggest financial payoffs of additional years of paid work are pushing back retirement account withdrawals, continuing to save, and delaying claiming Social Security benefits.

"Additional income can give you more time to contribute to your savings and it can also help you pay down debt and increase your cash reserves ahead of full retirement," Ward said. And for those unretirees who haven't started taking their Social Security benefit, delaying to claim means more money down the road.

"You'll get a higher benefit, and it's inflation-adjusted, so that's a good deal for many people," Ward said.

The feel good part of staying on the job

There's also the emotional draw of working, which is the second most-cited reason retirees choose to return to work.

Many retirees see part-time work as a good transition strategy with 57% of retirees wanting to continue working in some form, the T. Rowe Price report found. Men, in particular, were more likely to cite social connections as motivation to work.

"A lot of us want to work part-time in retirement," Eisenberg said. "We want to stay active, have social connections, bring in some income and to stay mentally engaged, but we also want to have time to do other things."

Plus, there's the freedom to do what you want to do this time around, Eisenberg said. That means choosing a working route that isn't stuffed with meetings, administrative duties — all "the parts of our former job that we didn't like so much."

And then there are the psychological benefits that work can offer, Robert Laura, a retirement coach, told Yahoo Finance. Several studies have indicated the positive mental effects of working. In fact, among older adults, retirees are more likely to experience depression compared to those who are still working, according to one recent paper.

"Work provides routine, structure, connection, mental stimulus, purpose, and relevance," Laura said. "These are all things that many people don't realize they are losing when they leave work and that aren't easily replaced with golf, grandkids, and crossword puzzles."

The best investment for the next 20 years: Morning Brief

At this week's Yahoo Finance Invest conference, I had the chance to interview two different authors — Mark Spitznagel and Morgan Housel.

Spitznagel is the founder of Universa Investments and the author of the books "Safe Haven" and "The Dao of Capital." Housel published "The Psychology of Money" in 2020 and his latest book, "Same As Ever," was released on Tuesday.

Both of these guests brought to the audience one of the most common messages an investor is likely to hear: stocks for the long run.

"We could all agree in this room that over the next 20 years, I'm the most bearish guy you're ever going to meet," Spitznagel said. "But we could all agree in this room that in the next 20 years, probably, the S&P is the best [place] to be. And if you could make one trade right now it's probably buy the S&P, right, despite what's going on and how expensive it is today."

"[If] you are a student of economic history, you should be an optimist on the future," Housel said. "People's ability to solve problems and become more productive is incredible."

Spitznagel's firm is focused on what his books cover — safe-haven investing aimed at preserving capital while offering explosive returns during turbulent market conditions. Housel's writing helps investors balance the pressures today with best-laid plans for tomorrow.

And so it comes as little surprise that both Spitznagel's and Housel's messages came with the same caveat — all that matters is that you survive.

"Mitigating risk really isn't about where we think the world is going to be," Spitznagel said. "Mitigating risk is about what that path is going to look like, and the opportunities that you have along that path, right? The dry powder that you create."

"If your definition of optimism is that everything's going to be great, that's a problem, that's complacency," Housel said. "So I think reasonable optimism is, the short term is a constant chain of surprises and setbacks and bear markets and recessions. But if you can survive and endure those, which, that's the big if, then for those who can stick around the rewards are incredible."

As TKer's Sam Ro flagged on Tuesday, work from Bank of America out this week showed that $1 invested in US large cap stocks 200 years ago is worth $16 million today. Stocks, in other words, usually go up.

Over those two centuries, we've seen a civil war on US soil, two world wars, multiple financial crises, several pandemics, and hundreds of events that would spook even the most reasonably optimistic long-term investor.

Coming off a bruising 2022 for markets, we began the year by flagging work from Nick Colas at DataTrek, which found that no 20-year rolling period since World War II has seen stocks offer investors a negative return.

"History shows that 20 years of continuous investment is the bare minimum to be assured of a positive real return for the S&P 500," Colas wrote. "One can do very well over a shorter period if all the stars are aligned, of course. But … two decades is the 'right' long term timeframe to use in a mental model of how long it can take for US equities to generate value for investors."

None of which means investors should ignore how things change over those two decades.

Nor should timespans 10 times longer be ignored, either.

But reaping the benefits of the S&P 500 over the next 20 years does require all 20 of those years. And that will likely require an investor to be both a pessimist and an optimist — but never just one or the other.

"One other way to frame it is save like a pessimist, and invest like an optimist," Housel said. "Save with the idea that all of economic history is just a constant chain of surprises and setbacks. But if you can endure that, then it's great. So that requires optimism and pessimism to coexist in the same mind, which is very difficult for most people to do. For most people, you're either a full-blown optimist or a full-blown pessimist. And both of those two get into trouble."

Where homebuyers want to live reverts back to pre-pandemic norms, new report finds

Homebuyers are no longer making those long-distance moves that remote work during the pandemic afforded them.

The median miles between a buyer's new home and their previous residence dropped to 20 miles in 2023 from 50 miles in 2022, a new report released this week by the National Association of Realtors showed.

The figure, along with other metrics in the report, highlight how much the pandemic changed the housing market and buyer preferences, but also how fleeting those patterns ended up being as time went by.

"We're seeing a market where CEOs want employees back to the office and so we're seeing trends that are driving that direction," Dr. Jessica Lautz, deputy chief economist at the National Association of Realtors, told Yahoo Finance. "I think COVID was just such an unusual time period."

The 'burbs are back

For instance, the share of homebuyers who bought in rural areas and small towns — where they could work remotely — fell this year versus last, according to the report, which relied on data collected from 6,817 households that bought a home between July 2022 and June 2023.

The report found that 14% of buyers purchased in a rural area, down from 19% during the same period a year before. Similarly, 23% purchased in a small town, down from 29%.

On the flip side, interest in suburban locations and urban areas — presumably locations nearer to workplaces — increased. The report found that 47% of buyers bought in the suburbs, up from 39% last year and closer to the trend from 2017 to 2021. Urban buyers made up 14% of all buyers, up from 10%.

The factors influencing a buyer's neighborhood choice also appeared to reflect the increase of in-person work. The report found that 38% of buyers said "convenient to job" was a main reason they picked a neighborhood, up from 33% last year and closer to the 42% reported in 2021 and 45% in 2020.

Commuting costs were also a bigger concern this year among buyers. Almost a third of buyers — 31% — considered commuting costs a very important home feature, up from 24% last year and in line with the historical average going back to 2011.

Other dynamics at play

Some of the changes could also reflect the rise of the more hybrid work model.

That may be the reason why the median distance didn’t revert all the way back to the norm of 15 miles seen between 2018 to 2021. Hybrid work gives Americans more flexibility to find an affordable home that is within driving distance to their office, but a commute they don’t necessarily have to make every day.

But another factor not at all related to work may also be at play — notably, housing affordability, which has worsened considerably this year as mortgage rates rise along with home prices. To get a break, buyers have to look further out.

"We're still seeing that median of 20 is higher than what we had seen historically," Lautz said. "I also would very much say people have been moving farther out to seek a more affordable property as well."

Medicare Part D 2024 drug premiums soar in advance of lower cap on catastrophic drug costs

DANVERS, MA, November 20, 2023 – A new HealthView Services analysis of Medicare Part D prescription drug plans (PDPs) in California, Florida, New York, Pennsylvania and Texas shows a dramatic increase in 2024 premiums. This is despite a prediction earlier this year by the Centers for Medicare & Medicaid Services that it expected basic Medicare Part D premiums to decline in 2024 as a result of the Inflation Reduction Act.

With more than 18 million Americans enrolled in standalone Part D plans, the Medicare Part D Premiums: Retirement Healthcare Costs Interim Data Report (2023-24), shows retirees who sign up for Medicare Part D plans from three of the largest Medicare providers in each state will pay, on average, 42% to 57% more in 2024 for plans compared to 2023. For high-end coverage, Part D cost increases range from 21% to 77%. This compares to Medicare Part B premiums rising by 5.9% in 2024, and a Social Security cost-of-living adjustment of 3.2%.

"Significantly more expensive premiums will come as a shock to the millions of retirees enrolled in Medicare Part D plans who, along with CMS, may have been anticipating lower costs with the introduction of the Inflation Reduction Act," said Ron Mastrogiovanni, founder & CEO of HealthView Services. "HealthView as well as other experts, including Kaiser Family Foundation (KFF), have been predicting that Inflation Reduction Act provisions, including changes to the cap on catastrophic coverage and cost sharing methodology between the government and providers, would lead to costs being shifted from carriers to retirees. This is what we are clearly seeing."

The report notes that these changes should be seen in the context of overall healthcare expenses which for many will include Part B, supplemental insurance, and all other out-of-pocket costs for drugs, as well as hospitalizations, doctors, tests, dental, vision and hearing. Part D premiums currently account for around 9% of lifetime retirement healthcare costs for a couple retiring in 2023. HealthView Services expects this to increase in 2024, and potentially if they rise by a similar level in 2025, Part D premiums would amount to over 14% of total healthcare costs. The jump in Part D premiums will take a significant bite out of the average $708 annual increase in Social Security benefits, before higher Part B premiums and other expenses are accounted for.

For approximately 25% of retirees, higher premiums will be offset by the potential for lower out-of-pocket costs for drugs from Inflation Reduction Act provisions, including drug price negotiations, inflation-based price controls and the lowering of maximum costs from $7,025 in 2024 to $2,000 in 2025.

Caps on the price of insulin that have already been implemented are currently benefiting retirees with diabetes.

"The 25% of retirees with out-of-pocket expenses higher than the new $2,000 cap may well realize savings on their out-of-pocket costs for medications as a result of these changes," added Mastrogiovanni.

"With increased cost sharing and price controls on drugs over the remainder of the decade, while everyone will experience higher premiums, many will benefit from a lower rate of increase in out-of-pocket expenses than would otherwise have been the case."

The new report details announced premiums for high-end, medium, and basic Part D plans for 2023 and 2024, which offer retirees different levels of prescription drug coverage. Data for all 50 states, as well as on Medicare Advantage plans that include prescription drug coverage options, will be incorporated into HealthView Services' 2024 full-year Retirement Healthcare Cost Data Report.

"Consistent with long-term healthcare trends, the increase in Part D premiums will continue to drive higher healthcare costs, and underscores the need to plan for them," said Mastrogiovanni. "The repricing of Part D coverage in advance of the implementation of key components of the Inflation Reduction Act may well continue into 2025 before we see a return to more normalized premium increases."

Stock market bulls make case for new highs in 2024

Josh Schafer·Reporter

The stock market has a new high-water mark for 2024 projections.

Strategists from BMO Capital Markets and Deutsche Bank expect the S&P 500 (^GSPC) to reach 5,100 by the end of next year, the highest projection for the benchmark index yet among Wall Street strategists tracked by Yahoo Finance.

This would mark a new all-time high for the S&P 500, which peaked at 4,796 in January 2022.

"We believe 2024 will be Year 2 of at least a 3-5 year process that will see US stocks exhibit more normal and typical performance, paced by a backdrop of normal and typical GDP and earnings growth, valuation, and bond yield ranges," BMO chief investment strategist Brian Belski wrote.

Belski's research shows that the S&P 500 usually returns about 11% in the second year of a bull market, making his call for 5,100 by the end of 2024 about in line with the historical average.

Both Deutsche Bank and BMO see the S&P 500 delivering earnings per share of $250 in the year ahead, the highest projections on Wall Street thus far. The higher projection for earnings pushes both calls for the S&P 500 just above the 5,000 predictions Bank of America and RBC released last week.

Notably, earnings growth has all four firms feeling confident the S&P 500 can continue to trade at a higher valuation than its historical standard.

"If earnings growth continues to recover as we forecast, valuations will remain well supported around the top of the range as is typical on the pricing in of a pickup in earnings growth," Deutsche Bank's team of analysts wrote in a note on Monday.

Both BMO and Deutsche Bank think stocks will be fine if a recession comes in the first half of 2024. Belski at BMO described a potential downturn as a "chicken little recession" and noted that the continued strength of the labor market makes him confident the US economy would hold up enough, meaning it would just be a "recession in name only."

Deutsche Bank's team has a clear call for a recession in the first half of 2024 and economic growth falling below trend as GDP grows just 0.6% in 2024. But that doesn't mean stocks will tank.

"Given [a recession] is widely anticipated, and expected to be mild and short, we see only a modest short-lived selloff," Deutsche Bank's team wrote.

From a sector perspective, Belski and BMO noted that investors will need to own a "little bit of everything" in 2024, which he noted is a "sharp contrast" from the "Magnificent Seven"-led rally of 2023.

"We believe active investment strategies will be even more important next year as many of the largest stocks that drove performance within sectors are unlikely to maintain that momentum in 2024, forcing investors to search for other opportunities further down the market cap spectrum," Belski wrote.