Retirees Should Plan for a Long Retirement
Probability of a 65-year-old living to various ages

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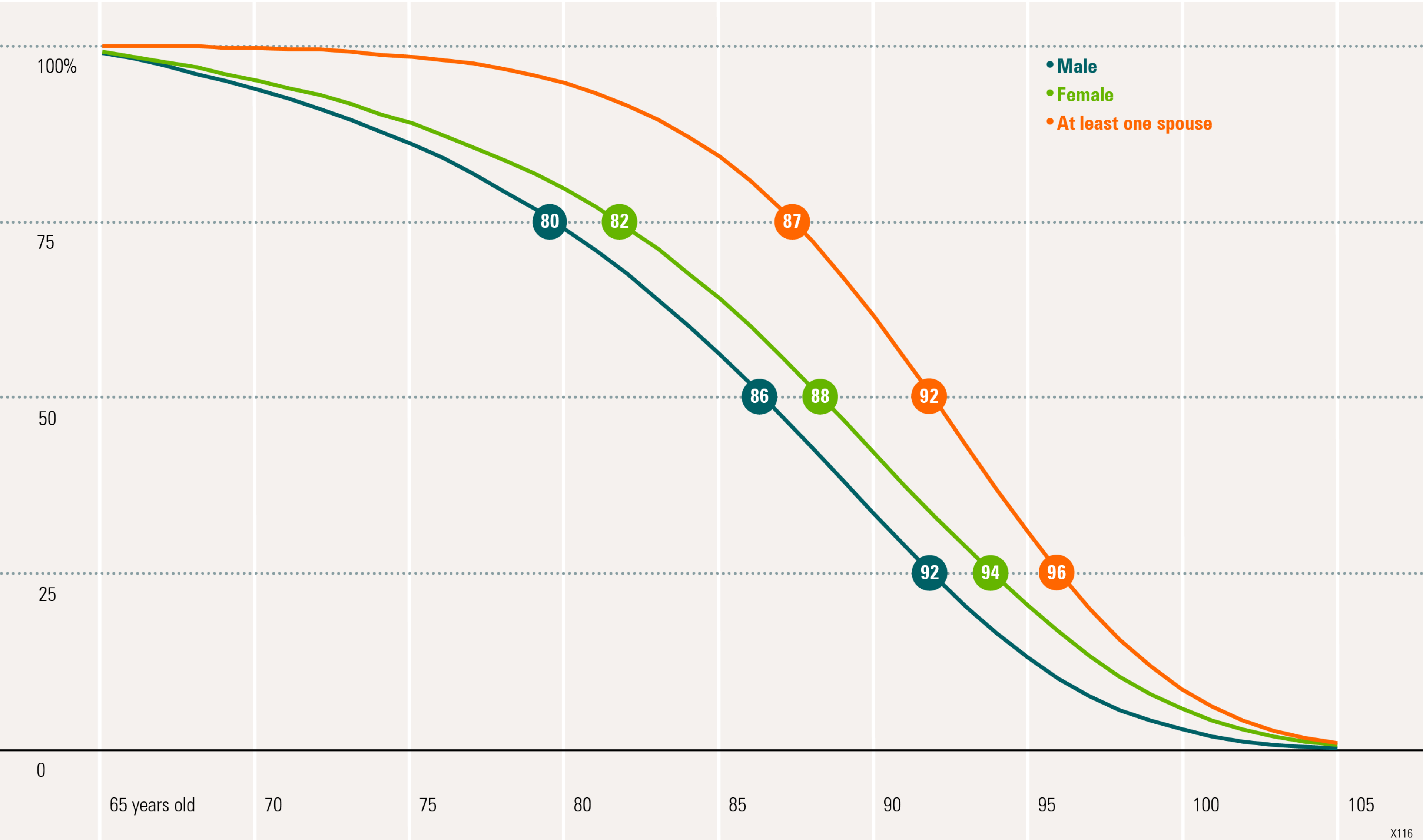

Source: 2012 Individual Annuity Mortality Basic Tables, Society of Actuaries.

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Longevity risk is the possibility that a person will outlive his or her retirement savings. Chances are, people are going to live longer than they think.

While living longer is a good thing, it can pose some challenging financial issues in retirement. Longevity risk is perhaps one of the biggest risks that investors will face as they enter retirement. Accounting for longevity risk in retirement planning is more important than ever because people today are living significantly longer than prior generations, due to advances in medicine, diet, and technology. This risk is compounded by medical and health-care expenses that are rising considerably faster than the rate of inflation.

Most people underestimate how long they are likely to live. Too often, people base their financial planning upon their life expectancy, which is the average age at which someone is expected to die. In the United States, the median life expectancy of a 65-year-old man and woman is 86 and 88, respectively. What people do not always realize is that this is the median. Half of the population will live longer, often much longer than their life expectancy.

The image above illustrates the probabilities of a 65-year-old living to various ages. For example, there is 25% chance that a 65-year-old man will live to age 92, a 65-year-old woman to age 94, or at least one spouse of a 65-year-old couple to age 96. Retirees should plan for a long retirement, perhaps as long as 30 years. If retirees' financial plans assume they live only to the median life expectancy, they run a greater risk of depleting their retirement savings.

There are a couple additional reasons to use conservative mortality assumptions. First, the fact that your clients are working with a financial advisor means that their expected mortality is likely to be older than the population at large due to better health-care, nutrition, etc. Second, consider the downside risk—you would rather be conservative and have money left over than have your clients run out of money before they die.

Source: 2012 Individual Annuity Mortality Basic Tables—Society of Actuaries, 2000–2004 Reports.