Dealing with Longevity

by John W Homer, CLU, ChFC

We never thought mother would outlive dad. At 52 she had, and survived, ovarian cancer. Two years later she had an aneurism in her brain and was rushed to the hospital. The doctors said she would not last a week. Somehow she held on and a month later returned home. Gradually her memory and motor skills returned and she nearly became herself again.

Dad closed his business when they turned 63, and he and mother traveled and did some things together they had always looked forward to doing. He didn't have a pension, but did have a 401k plan and Social Security. He supplemented their retirement income by working part-time for many years.

At age 76, dad suffered a severe stroke. He went into a comma and never came out. He passed to the other side of the veil 10 days later. Mother was suddenly a widow. Because of her health history, we didn't expect her to live long. But, she proved us wrong. She was a widow for 23 years before she died a few months after turning 99.

Longevity Risk is the risk of outliving our assets and income resources. There was a time when the majority of Americans could look forward to a guaranteed lifetime pension income in addition to their Social Security retirement benefit. For most of us, those days are long gone. Most employers have dropped pension plans in favor of 401k, or similar, retirement plans which have *no income guarantees.*

The result of having no income guarantee from our 401k, 403b, IRAs, and similar retirement plans is that if we live too long, or withdraw too much along the way, we can (will) deplete the assets that generate our retirement income. Stated another way, we can run out of assets and income before we run out of time! That is Longevity Risk.

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One result of running out of assets and income is that we may become a burden to our family, or become dependent upon government programs. Either of these outcomes comes with tremendous price tags, both financial and personal.

Longevity increases likelihood of needing Extended Care

The longer we live the more frail we tend to become. Medicare provides excellent health care benefits, but it pays nothing toward extended or long term care which is needed when we develop cognitive impairment or need assistance to perform basic activities of daily living like dressing, bathing, eating, getting up and down, etc.

The majority of extended care is provided in our own home by a spouse, or in a family member's home with care provided by family members. Initially, there may be little or no financial costs for such care.

But care is not without other costs. If you ever need assistance over a period of time, your life is not ending, but when your spouse or other family members become your caregiver, life as *they* have known it changes drastically. It ends. It dies long before you do. **Providing care to a chronically ill person often makes healthy caregivers chronically ill. The caregiver pays a dear personal cost.**

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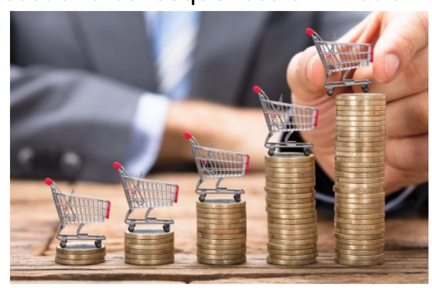
When family members are not capable of providing the care that is required, outside help can be brought into the home to assist with such things as bathing and dressing. However, even part time help for such services can be very expensive. Longevity multiplies the cost of extended care. The longer you live, the greater the expense.

Longevity multiplies the effect of Inflation

Another risk during retirement is inflation. Longevity multiplies the cost and consequences of inflation. It takes more money to live thirty years than it does to live twenty. Inflation erodes the value, and purchasing ability, of our income. The longer we live, the less we can purchase with the same amount of money. The result: **Inflation causes an ever decreasing lifestyle.** The longer we live, the less we can afford. **The longer we live, the lower our standard of living!**



Longevity adds years to every expense

Previous generations retiring at age 65 only had to fund their retirement into their 70's. That was their life expectancy. Increased longevity has changed that. Most people retiring today can look forward to living well into their 80's or 90's. Each additional year we live requires that much more income.

The following table from the Social Security Administration illustrates life expectancy based on your current age. Interestingly, as you age, your *remaining* life expectancy actually increases because you've survived many potential causes of death that were included in the initial mortality assumptions.

Current Age	Female (years remaining)	Male
65	20.5	17.9
70	16.57	14.4
75	12.97	11.18
80	9.74	8.34
85	7.01	5.94
90	4.85	4.08

The above table includes the entire American population. For those who do not smoke, the likelihood of living to or past age 90 is greatly increased. The probability that a non-smoking 65 year old woman will live to 90 is 44%. One in three non-smoking 65 year old men will live to 90**. But the odds that at least one of a couple, each non-smokers and age 65, will live to age 90 is 62%!**

Mitigating the Risk of Longevity

Because we are living longer, it is important to prepare for such a possibility as we plan for retirement. With this in mind, what steps might be considered to address and mitigate longevity risk?

- **Begin planning early:** Develop a savings and investment plan that helps build wealth, preferably in a tax-advantaged way. This will increase your alternatives as you approach retirement.
- **Consider the impact of longevity if you're still working**: Developing a plan prior to retirement will allow you to deal with longevity, and each of the other related risks, during retirement. Create a Retirement Income Plan with a retirement advisor and ask them to "stress test" your plan so you can visualize what adjustments may need to be made if the risk of longevity becomes a reality for you.
- **Refocus on income potential, rather than on the value of assets in your retirement plan**: When you retire, the amount of money in your retirement plan(s) will not be as important as the amount of income it can provide. The traditional strategy of shifting from a higher concentration in equities (stocks) to more fixed income (bonds) investments may decrease volatility, but in today's low interest rate environment, this may not generate the income that is desired. Many people diversify some of their retirement assets into investment strategies that are designed to provide ongoing income with adjustments for inflation. A qualified investment advisor may be able to give you options to consider.
- **Look for Increasing Income Options:** By definition, the cost of living increases with inflation. Food, housing, energy, and many other items cost more today than they did five, ten, and twenty years ago. Social Security income has the potential to increase over time. It automatically responds to changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (**CPI**-W). There are also investment strategies for retirement monies that are designed to provide increasing income over time. A qualified retirement advisor should be able to give you options to consider.
- **Plan for the possibility of Extended Care:** Everyone cannot afford Long Term Care insurance. But everyone needs a plan for extended care. Talk with your spouse. Talk with your family. Talk with a financial advisor who has a CLTC or other Long Term Care designation. They can help you understand what government programs may be available to you and what they do and don't provide and under what conditions. For those who plan to self-fund the cost of extended care, there are ways to multiply your savings when they are used to cover long term care expenses. Become acquainted with your options. Be proactive.