

The Most Important Question in Retirement Planning

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By Erin Tamberella and Rick Wright

It's a touchy subject, but a life expectancy analysis is the best way to ensure you will have enough money to live your later years in comfort and ease.

What do people fear the most in retirement? Outliving their income. And what variable has the largest impact on whether or not they will outlive their income? Life expectancy. Your ability to successfully plan for retirement is largely dependent on how well you can estimate your life span.

Longevity is the new buzzword in retirement planning, and rightfully so. It wasn't that long ago when most people retired at 65 and maybe lived another five to 10 years if they were lucky. Those days are over, which makes current retirement planning a much more challenging endeavor. People are living much longer, and their retirement nest eggs must live much longer as well. Not only are life spans increasing, but statistics tell us that the longer people live, the longer they *will* live.

Longevity estimates

According to the Social Security Administration, a man who reaches the age of 65 today is estimated to live until he is 84 years old. A woman turning 65 today is expected to live, on average, until she is 87 years of age. In addition to that, 25% of all 65-year-olds will live past

90 and 10% will live beyond 95. This dramatic increase in life spans is also expected to continue well into the future.

Longevity planning is becoming a larger and larger component of successful retirement planning. In order to ensure you do not outlive your income, maintain a comfortable lifestyle, and have choices in retirement, you must be as accurate as possible in estimating your life expectancy.

Unfortunately, estimating longevity is not even close to an exact science. The traditional approach for most advisors is to rely on actuarial tables for a best estimate. However, with life expectancies increasing practically every year, the mortality tables may no longer be enough.

Overestimating life expectancy is almost as bad as underestimating it. You may think a safe response to the whole longevity question would be to simply assume death at the age of 105. While the former could result in you outliving your income, overestimating can affect your quality of life during retirement by being forced to spend less than you could.

Individual life expectancy analysis

To increase the probability of success in estimating your life span, consider working with your advisor to develop an individualized life expectancy analysis. Everything you do in planning for your retirement revolves around this number. Therefore, it is critical to the success of your retirement plan that you are able to estimate your life span as accurately as possible. Only then can you begin to develop a plan that will adequately provide for that life span.

Areas you'll want to consider when doing individualized life expectancy analysis are: medical history, family history, and lifestyle habits. The following are some questions you might want to think about.

Medical and family history

- Have you ever had a heart attack or been diagnosed with any kind of heart disease?
- Are you or have you ever been on cholesterol medication?
- Have you ever been diagnosed with high blood pressure?
- If so, are you on medication?
- Have you or anyone in your immediate family—parents, grandparents, siblings—ever had a stroke?
- Have you or anyone in your family ever had any type of cancer?
- Are your parents still alive?
- If not, what did they die of and how old were they when they passed away?
- Are all your siblings still alive?
- Have any of your siblings experienced any serious health problems?
- Lifestyle habits

- On a scale of 1-10, with 10 being a health nut and 1 eating at McDonald's every day, how would you rank your diet?
- Do you exercise regularly?
- How many times a week?
- What kind of exercise?
- Have you ever smoked?
- Did either of your parents smoke?
- How many days a week on average do you consume alcohol?
- Do you always, sometimes, or never wear a seat belt?
- On a scale of 1-10, with 10 being you could go postal any second and 1 you're in a pleasant coma, how would you rank your daily stress levels?
- Do you get enough sleep?
- Do you participate in high-risk sports and other activities, i.e. football, skydiving, etc.?

It's probably best to go through these questions with your advisor so he or she has all the necessary data directly from you. Your advisor will then review your answers together with the actuarial tables to determine the life expectancy you'll be using when developing your retirement plan.

Once the mortality tables have been reviewed, you can decide whether years should be added or subtracted from your life expectancy based on your answers to the questions above. A large number of "bad" answers, especially the parents' age at death, would justify lowering your estimate, while a preponderance of "good" answers would suggest a higher estimate is appropriate.

The parents' age at death is generally considered an anchoring data point for most longevity estimates, unless death occurred by other than natural causes.

Obviously no one can know for sure how long you will live. As mentioned earlier, this is definitely not an exact science, but it will likely give you a better estimate than relying on the actuarial tables alone.

The more accurate your estimate, the better your retirement planning will be. Going through this process will give you additional insight into appropriate strategies to use in your retirement planning as well as proper asset allocations at different stages of your retirement.

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