



Longevity: How Life Expectancy Affects Retirement Planning

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The most important variable in financial planning is one you can't predict or do anything about: life expectancy. Life expectancy has increased dramatically over the past century, with a person born in 2012 expected to live to age 79, which is 32 years longer than a person born in 1900. However, for retirement planning purposes, the more relevant statistic is not one's life expectancy at birth, but one's life expectancy during retirement. How long a client will live, and at what age he or she will retire, will determine quality of life, at least with respect to having enough money to last.

Baby Boomers are finally starting to get real about this. Until recently, Boomers have been far too casual about retirement, claiming Social Security at 62, figuring they'd live to be about 80. They have retired without doing the math – on the assumption that everything will all work out. Now, it's starting to hit them that they might live longer than expected, and that their expenses in their retirement years, are a lot higher than anticipated.

The Insured Retirement Institute has been conducting an annual survey on Boomer Retirement Expectation. Their 2016 survey found that only 24% of Boomers are confident they will have enough savings to last throughout retirement, and only 27% believe they will have enough money for healthcare expenses. These statistics are cause for concern! Where Boomers once visualized their retirement years would look like the idyllic photos in the ads, they are now starting to see what their own retirement might actually look like. While a few years ago only 40% of Boomers saw Social Security as a major source of retirement income, today nearly 60% are counting on Social Security as their primary income. For a generation that was taught not to count on Social Security, this government sponsored program is turning out to be their financial life line.

Because life expectancy is longer, and retirement income lower, many Boomers are choosing to delay retirement as long as possible. Continuing to work, if you are able, allows you more current income, and possibly even sufficient income to be able to save more for your future needs.

Having income last as long as you do is only one issue to consider with longer life expectancies. The older you are, the more likely you will need long term care. According to the Census Bureau, the number of individuals 85 and over is projected to increase over the next 20 years. Census data also show that individuals age 80 and over are the most likely to need long term care. In 2010, 71% had a disability, 56% had a severe disability, and 30% required at least some assistance with daily living. Recent studies show that over 2/3 of individuals over 65 experienced a need for some type of long term care during the balance of their lives, with the average duration of needed care reaching three years.

Considering costs of healthcare in retirement has become a very significant component of comprehensive financial planning. The Insured Retirement Institute estimates the cumulative healthcare expenses for a 65 year old man in 2015 was \$275,000 and for a woman \$319,000.



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While these statistics and observations are alarming, they are not meant to strike fear and terror in you! They are meant to motivate you to consider all aspects of your retirement life as you lay out the roadmap for your financial future. Unfortunately, many Boomers haven't planned and haven't saved enough and will face some tough choices in the years ahead. Staying healthy and able to work may be the best prescription that can be written for Baby Boomers who are past their prime earning years and unable to save. For younger workers; now is the time to tighten your budgets and save as much as possible. Start planning now and begin a disciplined savings program, if you have not already done so. Longevity is one of the most important factors to consider when you undertake formulating your retirement plan, and as we mentioned earlier, it's a number that can't be predicted. Getting older is filled with enough challenges without adding financial worries to the heap. Don't miss the opportunity to plan, and hopefully mitigate stress so you can look forward to a long life, not dread it!

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