EDUCATIONAL COMMENTARY

For consumers

# LONGEVITY, LIFE EXPECTANCY, AND LIFETIME INCOME

How long can you reasonably expect to live? That's a key retirement planning question. And it raises questions about how to add protected lifetime income to your portfolio so you don't outlive your money.

Do you need to plan for a 20-year retirement, a 30-year retirement, or longer? If you're married, will you outlive your spouse? The exact answers to these tough questions are unknowable. But you can do a lot better than just guesstimating. By using a life expectancy calculator, along with guidance from a financial professional, you can explore the probability of living to a certain age. Then you can design a solid retirement plan that offers protection you need.

### UNDERSTAND THE DIFFERENCE: LONGEVITY VERSUS LIFE EXPECTANCY.

Longevity and life expectancy are sometimes used interchangeably, but there's a difference. Longevity suggests a long life, while life expectancy measures averages—the average number of years remaining until death for an individual or a group of people at a given age. Life expectancy is not an endpoint. There's a 50% chance you could live longer and a 50% chance you could die sooner.

How long are people living in the United States? It depends on your age group and your sex. For a baby born in 2018, life expectancy rose to 78.7 (76.2 for males and 81.2 for females) according to the National Center for Health Statistics. What if you've already made it to 65? For a 65-year-old man, life expectancy is 18.1 years (age 83.1). For a 65-year-old woman, life expectancy is 20.7 years (age 85.7). These age group statistics are telling, but don't be fooled into thinking that's your exact number.

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Few people die at life expectancy. You can pass away many years before—or many years later—than the average. "The question is, 'Which side of the line will you be on?'" says Michael R. Harris, a senior educational advisor with the Alliance for Lifetime Income who holds CFP, CLU and CHFC designations. "Are you one of those who will live a long life?"

### TRY A LIFE EXPECTANCY CALCULATOR

A good place to start is to check on the average lifespan for people your age. The Social Security Administration's website has a basic life expectancy calculator. You can plug in your gender and birthdate, and it tells you the average number of additional years that someone of your gender and age can expect to live.

The American Academy of Actuaries and Society of Actuaries online Longevity Illustrator (longevityillustrator.org) gives you a more nuanced life expectancy estimate, based on the four factors its members have found account for a significant amount of the individual variations in longevity: age, gender, smoking habits and health status (poor, average or excellent). The calculator doesn't just produce a single age. Rather, it shows you the likelihood you'll live to various ages. You could have a 93% chance of living until 75 and a 34% chance of living until 95, for example. The calculator also shows the likelihood that you'll live for a certain number of years past retirement age. Say there's a 50% probability that you'll live 26 years past 65 and a 25% probability you'll live 32 years past 65. You can use this information to decide how long your retirement income planning horizon should be.

### IT'S A QUESTION FOR COUPLES, TOO

The Longevity Illustrator also provides crucial information for couples. If you plug in information for both spouses, it answers: "How long can we expect to live as a couple?" and "By how many years might one of us outlive the other?" This is key because if you plan for each spouse or partner separately, you may underestimate the length of time at least one of you will live by several years. Keep in mind: It's very likely one of you, usually the wife, will outlive the other. That factor will also impact your retirement income plan.

If you want a more personalized look at your life expectancy number based on health factors, try the Living to 100 (livingto100.com) online calculator. It was created by Dr. Thomas Perls, the founder and director of the New England Centenarian Study at Boston University's School of Medicine. The calculator asks 40 questions such as "How many new relationships/friendships have you developed over the last 12 months?" and "How often do you eat sweets?". At the end of the questions, you'll get a personalized life expectancy number. You can find out how many years you can potentially add to your life expectancy by changing some of your behaviors. For example, if you said you eat sweets every day, the advice section says that cutting back sweets in your diet to one to two times per week or less could add a year to your life expectancy.

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### FILLING UP YOUR PROTECTED LIFETIME INCOME BUCKET

Once you've calculated the probability you'll live to a ripe old age, the next step is to set up a retirement income plan to make sure your money will last as long as you live. A financial professional can help you determine how much money you'll need on a monthly basis to cover your essential living expenses. That's how much you want in protected lifetime income. Aside from pensions, there are two other ways you can get protected income for life: Social Security and annuities.

With Social Security, at full retirement age, you'll get monthly payments from the U.S. Treasury based on your lifetime work credits or your spouse's. You can elect to take Social Security payments early at age 62 at a reduced rate—or delay payments until age 70 and get higher monthly benefits. (If you set up an account at SSA.gov, you can check how your payments would vary based on claiming benefits at different ages.)

The other way to get protected income for life is from an annuity that you purchase from an insurance company. You're buying protection. You hand over a lump sum of money to the insurance company and get back a stream of lifetime income payments. The annuity payments end when you pass away.

There are different types of annuities and optional benefits that can provide a range of protected lifetime income for you or you and your spouse. Income options, such as Guaranteed Living Benefit (GLB) options, can provide levels of income that is protected and still allow you to maintain control of your invested assets. These options are available on various types of contracts such as Fixed, Index and Variable annuities. That's why it's important to seek out help from a qualified financial professional to learn about the options that are available to you and that best meets your needs.

### HOW LIFETIME INCOME HAPPENS

You might be wondering how an insurance company can keep up payments to you if you live a really long time. Where is the extra cash coming from that insurance companies are paying out to folks who live to be really old? It's from mortality (death) credits. All the people who buy annuities get pooled together. When people die early, that money goes back into the pool and allows the insurance company to pay the people who live a longer than expected life.

Mortality credits allow annuities to pay out significantly more in some instances than what you can get from an investment that doesn't factor in age. With an annuity, your age factors into the level of payouts—how much income you can receive from the annuity. Basically, the older you are when you turn on the income stream, the more income you'll get. If you're 80 and buy a one-year certificate of deposit, it might pay 1% interest. If you're 40 years old, you'd get the same 1% interest rate. By contrast, an 80-year-old who buys an annuity will get a much higher payment rate than a younger buyer of the exact same annuity. "This is a huge benefit of annuities that nobody talks about," says Harris.

Consider the probability that you or your spouse may live much longer than your life expectancy. And then consider protected lifetime income as part of your portfolio and retirement income plan.