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Elizabeth O'Brien's Retire Well

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Living to 100? It's more likely than it sounds

Nearly half of retirees will live past 85, and longevity requires big financial adjustments

By Elizabeth O'Brien

When Lisa Chapman raises the issue of longevity with her clients, some joke that they'll just move in with her if their money runs out. As that joke suggests, it's hard for many people to imagine living, much less planning, for 30-plus years in retirement.

Chapman, a wealth adviser with UBS Wealth Management Americas in Long Beach, Calif., has a trump card to play with the doubters. She counts among her clients two centenarians, one 104 and one 109. "They blew out the average, and it gives me two really great examples to use with my clients," Chapman said. When it comes to her clients meeting their goals in retirement, Chapman said, "I'm not worried about market volatility so much as longevity."

Pre-retirees expect to live to a median age of 85, according to a Society of Actuaries survey due to be published next month. That's just about right, in actuarial terms. A 65-year-old man in 2009 could expect to live to age 82.5, on average, while a 65-year-old woman could expect to live to 85, according to the Social Security Administration's actuarial tables.

But "average," by definition, means that roughly half the people will live longer. For a 65-year-old couple, there is a 50% chance that at least one will live until age 91, and a 31% chance at least one will live to age 95, according to the Society of Actuaries.

Enlarge Image

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According to the Society of Actuaries, there's a 31% chance that one of these lovebirds will live to be 95.

Online mortality calculators can give you an estimate of your life span, but they're largely built on the assumption that future retirees will continue to live in the current medical climate, when in fact there will continue to be advances in treating and curing diseases, said Dean P. Foster, professor of statistics at the Wharton School of the University of Pennsylvania. Foster and some colleagues built their own calculator that factors in health considerations; you can try it here .

And consider this: At 3% annual inflation, your purchasing power will be cut in half in 25 years, said Ron Florance, deputy chief investment officer for Wells Fargo Private Bank. "Longevity and inflation are two things you don't want to underestimate," Florance said.

Balancing health and finances

Of course, health matters in the longevity equation. You're less likely to make it into your 90s if your idea of vegetables is a dab of coleslaw with your burger and fries, or if you consider yourself active if you switch around your television lineup.

Dr. Gary Small, director of the UCLA Longevity Center and author of the book "The Alzheimer's Prevention Program," said genetics account for about one third of the average person's longevity. The other two thirds, he said, is largely under our control. Eating well and exercising can both prolong life and improve well-being in the later years.

Ample savings, of course, also contribute to a retiree's quality of life. "Retirees are satisfied with their retirement if they have health and resources," Small said.

It's a financial planner's job to help ensure those resources last a lifetime. And part of the planning process involves getting clients to picture themselves as older and frailer. Those who make that mental leap are more likely to take planning seriously, advisers say.

Researchers at the AgeLab at the Massachusetts Institute of Technology came up with three questions to help people think more concretely about their older age: Who will change my light bulbs? Who will I have lunch with? How will I get an ice cream cone?

Most people want to age in their own homes, and these questions encourage them to think about what supports they'll need if they can no longer drive or maintain their residence. They can also help an adviser reinforce the importance of planning for contingencies beyond the portfolio level, said AgeLab director Joseph Coughlin, who wrote about the three questions for MarketWatch earlier this year.

The real planning begins when clients can picture themselves as old. (And from what folks are saying, many boomers won't begin to think they're old until they hit their 80s.)

Too conservative?

Many investors equate retirement with extremely conservative portfolios. It's not uncommon for people to retire with retirement accounts allotted to 90% bonds and 10% stocks, said John Diehl, senior vice president at Hartford Funds.

Yet that kind of portfolio won't provide the growth that will be needed to help fund decades' worth of retirement expenses, experts say. Florance's current recommendation for a balanced portfolio, appropriate for many retirees, includes 34% domestic and international bonds, 39% domestic and international stocks, with the rest a mix of other assets, such as real-estate investment trusts and commodities, and cash.

Many financial advisers use software that illustrates the likelihood of a portfolio running out of money under different assumptions for longevity, market conditions and inflation. If it seems unlikely that a portfolio will last until the target age, investors have more options than just tweaking the asset allocation, said Rand Spero, president of Street Smart Financial in Lexington, Mass.

To stretch their funds, Spero said, people can plan to work longer, lower their retirement expenses, and to curtail their planned financial gifts to family members or charities.

Another option to consider is longevity insurance, a type of annuity that pays an income stream only if a person lives to be a certain age, such as 85 (if the person dies before reaching that age, in traditional products, the original investment is forfeited). People might also take Social Security later if they appreciate how long they might live. Monthly benefits are highest if claimed at age 70, as Alicia Munnell noted recently on MarketWatch's Encore retirement blog .

To be sure, it's possible to take longevity planning a bit too far, with diligent savers living too conservatively when they're younger. Advisers usually shouldn't dissuade retirees from taking a well-deserved trip if they have the funds and health to enjoy it, Spero said. Health problems can quickly escalate and make travel difficult, so it's good to tick an item off the bucket list while you're still able.

Michael Kitces, director of research for Pinnacle Advisory Group in Columbia, Md., and a MarketWatch RetireMentor columnist, says software projections can be artificially dire. A simulation will run the numbers and conclude, for example, that someone has a 10% chance of running out of money by age 95. A one in 10 chance of failure—of subsisting on Social Security and the proverbial cat food—is a risk that many wouldn't be comfortable taking.

But in reality, Kitces said, "few people will spend themselves off a cliff as if they never saw it coming." In other words, most people can make adjustments well into retirement, curbing expenses to ensure the worst won't happen.

Spero agrees. As important as longevity planning is, he said, "you can't sit around and obsess about this either."