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COROMANDEL WEALTH MANAGEMENT

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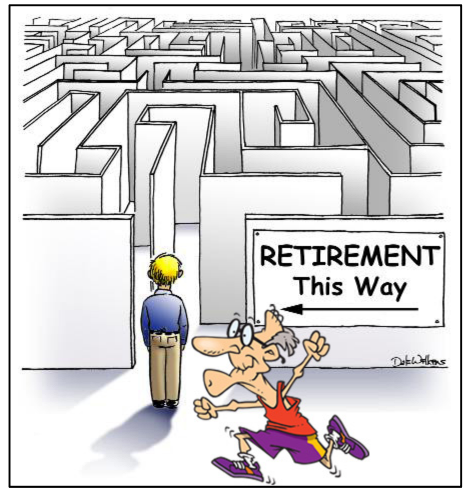
# The good and bad news: we're living a lot longer

*"If you live to be one hundred, you've got it made. Very few people die past that age."*

*– George Burns, American comedian, actor, writer (1896 - 1996)*

***Navigating the Retirement Maze***




When discussing retirement planning with my clients, the issue of life expectancy inevitably comes up. Unless they are facing significant health issues or have a family history of short lifespans, I usually suggest that they "worst case" their estimates of longevity and assume that they will live into their 90s. (With couples, I usually put one lifespan in the 80s, which I will explain shortly.) Life expectancy is one of the factors that most affects required retirement savings and income. Thus, it is important to use realistic estimates for life expectancy in order to develop a practical financial plan.

## Longevity: A financial burden

The Social Security Administration's definition of "full retirement age" (FRA) for Baby Boomers is between the ages of 66 and 67 depending upon year of birth, at least with respect to claiming Social Security benefits. The reality is that many Boomers may need to work well past their FRA if they want to make sure that their assets last longer than they do. Advances in medical technology continually increasing our life expectancy, treating or eradicating diseases that used to be terminal. I expect this trend to continue over the next decade, further exacerbating the longevity problem.

Another issue with increased longevity is that it tends to increase lifetime medical costs, particularly in the later years. In fact, retirement researchers have even come up with what they call the retirement spending "smile": First the Go-go years (where retirees spend more on travel and recreation), the Slow-Go Years (when age and health begin to take their toll, and leisure spending decreases), and the No-Go Years (where health care costs escalate). If the latter years involve long term care costs, either at home or in a facility, financial assets can take a severe hit. This is particularly a problem if there is a spouse who still needs assets on which to live.

Living a long time is expensive. However, there are ways to mitigate these future costs of longevity. I'll discuss a few of them. First, though, you need to understand where these expectations of longevity come from, and what they mean for you and your family.

## The statistical reality

The U.S. government regularly uses longevity estimates in most aspects of its fiscal planning. The Social Security Administration derives its life expectancy calculations solely on current age. The same goes for Required Minimum Distributions from retirement savings account. The life expectancy figure – an average across all US citizens of the same age – is used as the denominator for figuring out the required withdrawal for the following year. But these figures are averages, which rarely apply to one's personal situation.

If your parents and grandparents lived into their 90s, there's a good chance that you may do likewise. Having good genes is nature's gift to you. If you want to get a better estimate of your likely longevity based on multiple family and lifestyle factors, check out the Life Expectancy calculator on Livingto100.com.

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Estimating your life expectancy is important when it comes to planning the finances of your retirement. For example, if one member of a couple has a pension that includes an option for partial or full income for a surviving spouse, which option should they choose? It's important to know that statistically, the likelihood of both spouses living to age 90 (assuming a current age of 65) is only 8 percent, less than 1-in-10 chance. Yet there is a 45 percent chance that at least one of them makes it to 90, based on data from the Social Security Administration's 2007 Period Life Table. Thus, including a 50 percent pension income option for a surviving spouse might make sense.

Similarly, assuming that both spouses will survive well into their 90s might be overly conservative and result in a couple underspending significantly during their retirement. When I develop plans for clients, I typically project that one spouse will make it to the early 90s, and the other into the late 80s.

## Addressing longevity finances

There are ways that you can improve your future cash flow in retirement. Think of these approaches as "retirement income extenders" that will generate additional cash that you might not currently be planning on receiving.

- **Max out your Social Security** – Unless there is a compelling reason to do otherwise, the highest earning spouse should typically wait until age 70 to claim their benefits. This may also eventually become the Survivor benefit if the high earner predeceases the other spouse.
- **Supplement Social Security with an annuity** – Despite the negative press that annuities have received, they can be a lifeline to provide you with income for life. I prefer simple fixed annuities – either immediate (start paying you right away) or deferred (begin paying at a predetermined age) – as the fees are lower. Considering that few employees receive pensions these days, an annuity can provide you with an added source of reliable income for the "needs" category of your retirement expenses.
- **Monetize the roof over your head** – An oft neglected source of retirement funds is a reverse mortgage. Provided that you can cover real estate taxes, homeowner's insurance, and you use the house as your primary residence, you can tap your home's equity tax-free, and it never has to be paid back for as long as you live there. Nor can they take away your home as long as you pay your taxes and insurance.
- **Insure possible health care costs** – With age comes increasing medical costs, and the fear that nursing home expenses will deplete assets rapidly. Long term care insurance (LTCI) can help mitigate this concern. The LTCI policies that I often recommend to clients are hybrid policies, that combine life insurance with an LTC rider. They have the benefit that if never used, the life insurance policy will pay proceeds to your estate or designated beneficiaries.

Your "golden years" can truly be a wonderful time of your life, though preparing for them financially is the key. As Mr. Spock should have said: "Live long and prosper, but get your finances in order first."

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