



# THE EDUCATED INVESTOR

## LIVE LONG AND PROSPER

One hundred years ago, a newborn American could expect to live about 55 years, hardly long enough to get to know the grandchildren. Since then, life expectancy has increased steadily, reaching records levels these days.

Increased longevity is great news, except for one thing: Retirement planning. Investors are at risk of outliving their retirement savings if they use old notions of life expectancy. Investors need to expect retirement to last much longer than previously anticipated – 30 years or more.

Life expectancy is an essential ingredient for retirement planning. As a first step to improved planning, the question we need to ask is: How long should one expect to live?

### Average Advice

The vast majority of retirement advice—whether published in popular magazines or offered by professional advisors—focuses on *average* life expectancy as the

primary dimension for planning. The discussion usually goes something like “The average 65-year-old male retiree will live to 82, so needs to plan for 17 years of retirement.”

This is partly true. The average 65-year-old male retiree will live to 82 years old. But, there is a serious problem with the second part of the statement. Eighty-two years is only the *average* life expectancy: The halfway point. Half of retirees will live *longer*. Investors actually need to plan on more than 17 years of retirement. If they plan for only 17 years, they face a 50% risk outliving their retirement funds.

### Flying Solo

A fifty percent chance of outliving retirement funds is a big risk. We need to reduce that possibility. If not age 82, then what life expectancy should investors plan for?

Table 1 shows a better way of predicting life expectancy. It displays the probability of living to various ages for a 65-year-old individual. For example, the table

shows that there is a 50% probability that a 65-year-old male will live to age 82. This is the average again: Half will live less than 82 years and half will live longer. A 65-year-old female has a 50% probability of living to 85. Reading further down the table shows that there is a 10% probability of living to 93 for men and to 96 for women. At the highest level, there is a 1% probability of a 65-year-old male reaching 100, and to 105 for women.

	Male	Female
50%	82	85
25%	89	92
10%	93	96
5%	95	99
1%	100	105

Life expectancy probabilities shown in Table 1 work better for retirement

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### Company Profile

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planning than a simple average. But, there is still a significant shortcoming. Table 1 applies only to individuals. It doesn't account for the combined life expectancy of a married couple. Most retirees are married.

### Two For One

The life expectancy of a couple, called the "joint" life expectancy, is longer than that of a single individual, and takes into account the combined mortality of two people, not just one. A married couple needs to plan their retirement funds to last until the *second* dies. They need to consider their joint life expectancy.

	65-yr-old	82-yr-old
82y	80%	-
85y	66%	94%
90y	36%	60%
95y	11%	20%
100y	2%	4%

Table 2 shows the joint life expectancy figures for a couple. The table is structured a little differently than Table 1. The figures in the columns show the probability that at least one member of a couple will survive to the stated age (shown in the leftmost column).

For example, the column titled "65-yr-old" applies to a married couple, both aged 65. The table shows that there is an 80% chance that either one, or both, members of a 65-year-old couple will survive to at least age 82. In other words, life expectancy of age 82 has gone from a 50% probability for an individual to an 80% probability for a couple. Couples saving for 17 years of retirement have an 80% chance of coming up short.

The second column in Table 2 applies to an 82-year-old couple. Why 82? Because age 82 is that familiar number, the *average* life expectancy of an individual. For those seniors that survive to age 82, this column shows how many more years they can expect. For an 82-year-old couple, there is a 20% chance of one or both surviving to age 95. If a retirement plan is based on only the husband's average life expectancy (82 years), by the time age 82 rolls around, there is a 20% chance of living on to age 95 – 13 more years of retirement.

Incidentally, alert readers will notice the life expectancy figures for 82-year-olds are higher than that for 65-year-olds. This highlights a general statistical trend: The older one lives, the older one can expect to live.

### Bottom Line

So, Americans are living longer than ever. What age should an investor use for planning? That depends on their risk outlook. Different investors may have different reasons for selecting one probability cut-off versus another.

Ten percent would seem like a good level for most people. At a ten percent threshold, a newly retired couple, aged 65, should plan on living to at least 95. This means *at least 30 years* of retirement.

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**A newly retired couple should plan on ... at least 30 years of retirement.**

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When Social Security was created in the 1930's, and age was 65 enshrined as the golden age of retirement, average life expectancy was only 63. The concept of retirement barely existed. Today, with life expectancy lasting well into the 90's, retirement takes on a whole new meaning. It takes diligent saving and thoughtful investing to finance a 30-year retirement. This is one of greatest challenges facing investors of the current generation.

For readers interested in more detailed information on this topic, or other investment topics and strategies, please feel free to visit our website at [www.rollinscapital.com](http://www.rollinscapital.com), or call or drop me an email.

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Sources  
 IRS Life Expectancy Tables.  
 Society of Actuaries RP-2000 Table.

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