



NATIONAL ASSOCIATION FOR FIXED ANNUITIES

Educate. Advocate. Integrate.

Age Matters

Helping clients understand
and mitigate longevity risk



Age matters, and that will be the focus of this series on longevity: to explore the ramifications of age as it relates to retirement planning and the risks associated with a long life.

The question, “How old are you?” is asked throughout life. We often define age by milestones. When you see a newborn, you ask how many weeks old the baby is. We move on to months until sometime after a toddler reaches two years old. Then, we look at annual birthdays that coincide with school markers: elementary school age and middle school age. This is followed by becoming a teenager; while in our teens, 16 becomes a major milestone for driving and starting young adulthood. The age of 18 is significant and is generally associated with high school graduation and the post-high school transition to college, military service or work life. After reaching the legal age of 21, milestones start to be measured by decades: 30, 40, 50 ... and on to centenarians, or those who have reached age 100. Though not long ago it seemed like turning 100 years old was unlikely, the United Nations currently projects that there will be 573,000 centenarians worldwide by the end of 2020; more importantly, that figure will grow to 3.7 million by 2050.

Life expectancy is an interesting concept because it actually increases the longer we live. For instance, at 18 years of age, the Social Security Life Expectancy Tables project that a man will reach 77 years of age and a woman will reach 82 years of age. By age 45, a male is expected to live to 79 and a female to 83. By age 65, a male’s life expectancy is now 83, while a female’s has risen to 85½. According to the Social Security Administration, about one out of every three 65-year-olds today will live past age 90, and about one out of seven will live past age 95.

This conundrum presents a challenge for retirement planning: By the time people reach retirement age, statistics say they will face a longer retirement than was expected when they were working. Therefore, as workers accumulate retirement assets, their decumulation plan should be recalculated each year to take into account the increase in life expectancy over time.

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The potential outcomes of not understanding longevity risk are that individuals will either outlive their retirement savings or, alternatively, they will underspend their savings, leading to a lower income stream during retirement.

Chronological Age vs. Biological Age

The two biggest issues associated with individuals trying to understand longevity risk are underestimating their longevity and failing to address the uncertainty associated with these calculations. Throughout the last

50 years, longer life expectancies have led to increased longevity risk. The impact of this is exacerbated by people who regularly underestimate their life expectancy: In recent surveys, The Society of Actuaries interviewed pre-retirees in the U.S. and, based on that research, found that more than half of Americans underestimate their life expectancy.

In looking across large pools of individuals such as the Social Security system, large pension plans, or life insurance companies pooling annuity or life insurance clients, it is possible to determine an average life expectancy with a fair amount of certainty. However, estimating one’s own longevity is far more uncertain. Therefore, self-insuring that longevity risk through comprehensive retirement planning may carry a significant cost but is also imperative to help achieve one’s goals.

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Future retirees must understand two concepts in order to effectively plan for sufficient income in retirement: chronological age and biological age. Chronological age relates to important markers in life, particularly as we view eligibility for certain government benefits that accrue for workers, veterans, pensioners, investors in tax-favored retirement plans and taxpayers in general. Specific years of age have different

ramifications for retirees regarding pensions, 401(k)s, IRAs, Roth IRAs, Social Security, Medicare, and other government or tax-favored benefits.

PLANNING MILESTONES

Age	Consequence
55	Eligible to take distributions from certain retirement plans without 10% penalty
59½	Eligible to withdraw funds from retirement accounts with no 10% early withdrawal penalty
60	Earliest Social Security eligibility for surviving spouse to receive benefits
62	Earliest Social Security eligibility, albeit a reduced benefit to plan participant
65	Eligibility age for Medicare health insurance benefits
66	Current full retirement age for Social Security benefits for those born prior to 1960
67	Current full retirement age for those born in 1960 and beyond
70	Age for maximum Social Security payouts with no further benefit increases for waiting
72	Age required minimum distributions begin, as of Jan. 1, 2020

These important milestones of chronological age must be taken into consideration when planning because of the financial ramifications associated with related decision-making.

Biological age, on the other hand, is the more pertinent measure of understanding longevity, and the risks and rewards of estimating this calculation can have profound effects on future retirees' financial outlook. Biological age relates to aging and incorporates factors such as lifestyle, exercise, diet and smoking (or not), combined with genetic predisposition.

As referenced earlier, people have difficulty estimating their own longevity because so many variables come into play. Asking a client, "How long do you think you will live?" results in an internal analysis based on reference points such as parents, grandparents, siblings, etc. — family members with whom they can identify and have had a similar experience. They may also consider their current health status as an indicator. To help clients simplify a complicated formula, there are websites dedicated to measuring longevity based on factors such as body mass index, alcohol intake, tobacco use, education, financial situation, exercise habits and many other factors. What is important for clients to understand is how to weigh these variables and determine a retirement income plan that allows them to maximize the life opportunities they are given and the goals they wish to achieve.

Mitigating Longevity Risk

Longevity risk comes into play when an individual's actual life span significantly exceeds his or her life expectancy. That is why it is so important to understand the determinates of biological age and all the variables of chronological age when planning for the future in order to build the financial resources to provide for the needs, wants and appropriate legacy goals during the retirement years.

In supporting individuals, couples and families throughout the planning process, it is imperative that advisors educate clients about risks associated with longevity and the solutions that provide certainty in an uncertain world. Questions to help clients understand their longevity risk go beyond just chronological and biological age determinates, but age matters:

- 1. How many years of retirement do you think you will need to plan for?**
- 2. What do you estimate your life expectancy to be?**
- 3. What is your current health status?**
- 4. Do you have a pension that has a lifetime income payout?**
- 5. Are you comfortable with your current estimated amount of guaranteed lifetime income?**

Upon receiving these answers, advisors can begin to understand how to approach longevity risk and guide clients toward creating a plan to diminish this risk and enjoy their retirement years.

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