Should You Save Enough to Live to 100?

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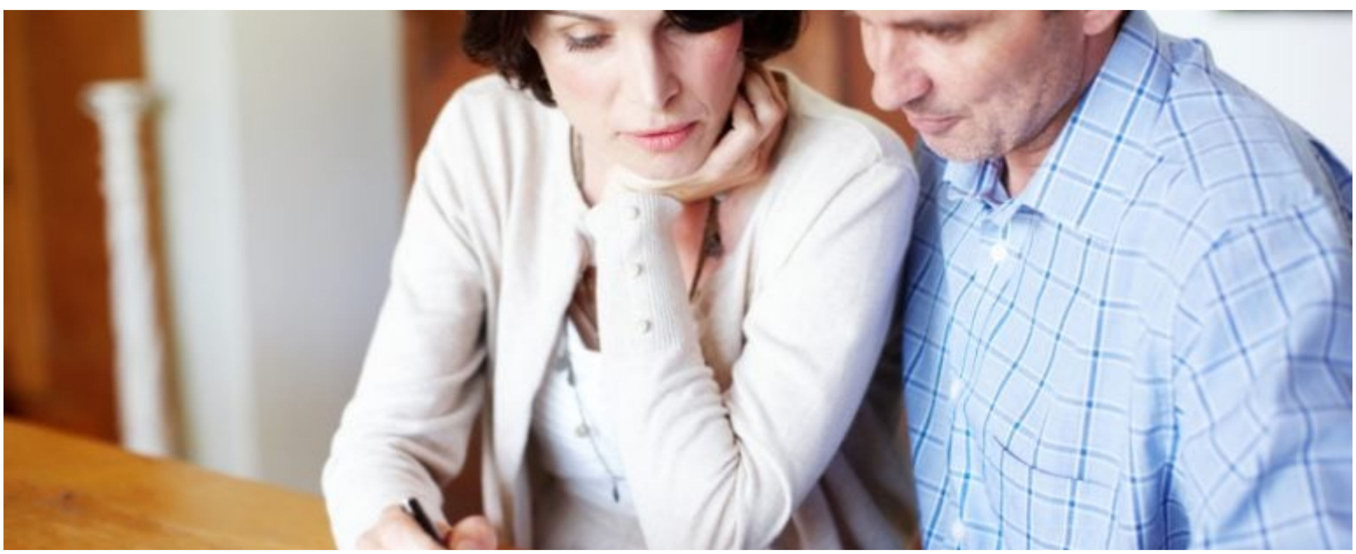

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First, you were supposed to die at 85. Then 90. Now 95 and even 100 are common defaults when financial planners tell people how much to save for retirement.

Except that's nuts.

In the U.S., the typical man at age 65 is expected to live another 18 years. The typical woman, about 20. Yet many financial planners contend we should save as if we're all going to be centenarians.

"Even when you have a 350-pound guy who smokes?" asks Carolyn McClanahan, a physician and financial advisor at Life Planning Partners in Jacksonville, Florida, who's downright offended by the notion that good financial planning requires such an obvious lie. Advances in medical science "aren't happening that fast."

McClanahan watched lives change in seconds during her stints in emergency rooms and pathology labs. "You come into the emergency room and you die, or I'm telling you that you have cancer," McClanahan says. "That makes it really hard for me to tell people to save, save, save."

Investment companies want as much of our money as possible, so it makes sense for them to promote the idea that all or even most of us should aim for triple-digit ages and save accordingly. Plus, financial advisors don't want to get sued, either by their elderly clients or the children who have to take them in when the old folks run out of cash.

Some retirement saving is essential. Obviously. But saving for a retirement that ends at age 100 means you'll need a nest egg that's about 40% larger than what you'd need for a normal life expectancy.

If a 35-year-old wanted to replace 60% of her current $60,000 salary at age 65, she would need about $1.2 million at retirement age if she expects to live to 85. Stretch that to 100, and she'll need about $1.7 million. (These figures assume 3% average annual inflation and a 7% return on investments. Your mileage may vary.)

Currently most workers (54%) have less than $25,000 saved for retirement, according to the latest survey by the Employee Benefit Research Institute.

What's the harm?

Encouraging people to save too much can have consequences:

You might not start because you're discouraged by the vast amounts you supposedly need.
You could put off retirement too long, working when you could have been playing or relishing your good health, which doesn't last forever.
Once retired, you might stint on the fun stuff because you're so worried about running short.

"I definitely have concerns that many advisors are being way too conservative," says Michael Kitces, a certified financial planner and partner at Pinnacle Advisory Group in Columbia, Maryland.

Kitces points out that while there's a 70% chance that at least one member of a married couple will make it to 85, the odds are only 20% either partner will make it to 95, and even lower that anyone will see 100.

"Most of our improvements in life expectancy are coming from the decline in child mortality," Kitces says. "The actual survival rate of people in their 80s and 90s is not increasing very fast."

Some of us will make it to 100, but that doesn't mean everybody faces the same odds. If you're a fit, healthy college graduate with an above-average income, a 100-year life span may be possible. If you smoke, have high blood pressure or high blood sugar, or are overweight or obese, you're less likely to make it to 85. Lower incomes and education levels are also associated with shorter life spans.

McClanahan plans for 100-year life spans for her clients who take good care of their health and who have plenty of money. She predicts average life spans for those with average health. If clients have health challenges or not enough money to last a typical retirement, she sends them to a life expectancy calculator, Livingto100.com. Then she and the clients discuss the results to see how they want to handle the possibility of outliving their savings. (Run the numbers on multiple scenarios for yourself with NerdWallet's Retirement Calculator.)

Uncertainty about longevity is just one of many unknowns in financial planning, says Bob Veres, a financial planning industry consultant and publisher of the trade publication Inside Information. So-called "safe" withdrawal rates of 4% annually may actually be too conservative in most markets, Veres notes. Also, people often spend less as they age, which makes planners' typical assumptions that spending will increase with inflation each year too conservative.

Cautious assumptions may stave off lawsuits, Veres says, but they "diminish the spending capacity of people who retire today."

"I think only the client knows whether the inconvenience of spending less in retirement is more or less painful than the risk of cutting back drastically later in retirement if the markets don't cooperate," Veres said.

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How to save for an uncertain future

Working longer, saving more or planning to spend less in retirement are the typical prescriptions when people aren't saving enough. But there are a few other ways to help insulate yourself in case you guess wrong and wind up living longer than you plan for:

Put off claiming Social Security. This means a bigger benefit from an income stream that you can't outlive. Your check will be about one-third larger if you wait until at least your full retirement age (currently 66, rising to 67 for those born in 1960 and after) instead of starting at 62. Delay until 70, and your benefit would be more than 75% higher than at 62.

Consider an annuity. You give an insurance company a chunk of money and get a stream of monthly checks that can last for life. A 65-year-old man could buy a $100,000 immediate annuity, where payments start right away, and get about $530 a month without inflation protection, or around $380 with increases tied to the Consumer Price Index, according to ImmediateAnnuities.com, an annuity marketplace. Another option is a longevity annuity, where you hand over the money but payments don't kick in until a later age, often 85.

Investigate a reverse mortgage. You can turn your home equity into cash, but you don't have to repay the loan until you die, sell or move out. Payments could start early in your retirement so that you don't have to tap as much of your nest egg. Or you could set up a reverse mortgage line of credit that you would only use if markets tanked, to give your investments time to recover. Or you could keep a reverse mortgage as your last-resort option, turning to it after you've exhausted your other assets.

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