

LONGEVITY RISK

May 2007

How long will you live? This is a question that, while impossible to answer, will be impacted by many factors. Some are in your control, such as diet, amount of daily exercise, and stress level, while others are out of your control, including your genetics and outside influences. Regardless, it is imperative you have a financial plan designed to provide the necessary income from the day you retire through the end of your life.

If you had a crystal ball and knew your mortality, retirement income distribution planning would be simple. Using conservative rate of return assumptions, you could calculate how much principal and interest you could remove from your investment portfolio each year until you completely consume your savings. However, given you do not have access to this information (and probably would not want to know even if you did), you should plan for a longer time period than you initially believe. I am sure you will agree that it would be better to over-save and pass on with money in the bank, than under-save and become destitute while still living.

Consider the following statistics according to the American Society of Actuaries:

- A male in good health at age 65 has a 50% chance of living to age 85 and a 25% chance of living to age 92.
- A female in good health at age 65 has a 50% chance of living to age 88 and a 25% chance of living to age 94.
- A couple in good health at age 65 has a 50% chance of one survivor living to age 92 and a 25% chance of one survivor living to age 97.

(Source: Annuity 2000 Mortality Table)

For illustration, consider Jim Smith. He wants to be fully retired (i.e., financially independent) by age 55. Assuming he entered the workforce out of college at age 22, he will have worked for 33 years. But, if he is in good health at age 55, he has over a 50% chance of living for another 37 years. This would be longer than his entire working career! This begs the question, "In retirement, do you live off a pool of money or an income stream produced by a pool of money?" This concept will be revisited in a future article.

While each person's mortality is unique, it would be helpful to narrow the age range of possibilities based on your unique lifestyle. For fun, I recommend visiting www.livingto100.com. This site contains a calculator that will attempt to project your mortality based on answers to a series of questions. It is free, takes less than five minutes to complete, and will help you become more aware of some of the factors in your life today that could have an impact on your quality of life and longevity.

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