Life Expectancy on the Rise: What It Means for You

Older people in the United States are living longer than previously predicted. New estimates released by the Society of Actuaries (SOA) revealed that the life expectancy for those who reach age 65 has increased, on average, by about two years.

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The SOA's calculations showed that among males age 65, overall longevity rose two years from age 84.6 in 2000 to age 86.6 in 2014. Similarly, among 65-year-old women, longevity rose 2.4 years, from age 86.4 in 2000 to age 88.8 in 2014.[1]

Commenting on the SOA's findings, Managing Director of Research, Dale Hall, explained, "The purpose of the new reports is to provide reliable data that actuaries can use to assist plan sponsors and policy makers in assessing the financial implications of longer lives."[2]

Generally speaking, what might this news mean to the average retirement saver or retiree? Those additional two years mean that the *expected* time a person might spend in retirement is about 10% greater than he or she might have initially planned for. As a result, the values associated with a retirement accumulation and/or distribution plan may need to be adjusted by similar proportions.

For example, individuals still accumulating retirement assets who had previously determined they needed a $1 million nest egg might now need $1.1 million to finance those two added years. For someone who is in mid-stream on a retirement savings plan, increased longevity could require boosting contributions by 20% or more to catch up.

For those just starting withdrawals in retirement, the projected annual distribution amount may need to be reduced by 10% in order to conserve resources for managing those potential added years. Similarly, if individuals are already into a withdrawal program, they might need to scale back their annual withdrawal amounts to create reserves for those potential added years.

Because actuarial life expectancy also plays a big role in how both pension plans and Social Security manage their finances, a jump in the projection has a commensurate impact on projected deficits and funding needs. For instance, based on the new data, the SOA estimates there could be a 4% to 8% increase in private pension plan liabilities for plan sponsors, although the average cost will vary greatly according to the design and demographic profile of the plan.[2]

Increased longevity may also have an impact on the reduction in benefits Social Security takes from recipients who retire before their normal age as well as the size of the bonus it pays to those who delay receiving benefits.

While all of these adjustments are likely to play out gradually over time, there are some important steps that retirees or those near retirement should take now to help ensure their money lasts throughout their lifetime.

Making Your Money Last

Because of increased longevity, managing cash flow is more critical than ever. While many variables come into play, there are a number of planning moves that can help retirees live within their means and make appropriate adjustments in response to changes in income and expenses.

If you are retired or about to retire, you will need to clarify your current financial situation, as well as any significant changes you expect. Two sources will provide this information:

- A net-worth statement, which provides a snapshot of your assets, debt, and cash reserves.
- Your monthly or annual budget, with itemized breakdowns of your income and expenses. If you haven't retired yet, it's a good idea to prepare a projected budget of your retirement income and expenses.

Even with reasonable assumptions about investment returns, inflation, and retirement living costs, it is likely you will encounter numerous changes to your cash flow over time. Experts often recommend a monthly review of your budget, as well as a comprehensive annual review of your financial situation and goals.

What to Look For

What should you look for as you monitor your finances? The following are potential developments that could affect your cash flow and require adjustments to your plan.

- Interest rate trends and market moves may result in an increase or decrease in income from your savings and investments.
- You may also encounter changes in federal, state, and local tax rates and regulations. Watch for changes in Social Security or Medicare benefits or eligibility, as well as new rules affecting employer-sponsored retirement benefits and private insurance coverage.
- Inflation and health care costs are two other variables that can have an impact on living costs and, hence, your retirement planning assumptions.
- Life events such as marriage, the death of a spouse, and the addition or loss of a dependent may also affect your cash flow. In addition, cash flow is impacted by both small and significant choices you make over the course of your retirement, such as how much you spend on travel and entertainment and whether you live in a lower-cost or a higher-cost locale.

It is worth paying close attention to cash flow, making sure you budget carefully, monitor income and expenses frequently, and take action whenever you believe that significant changes may be necessary.

[1]The calculations presented are based on public mortality tables, which were developed with certain populations in mind, and reflect probabilities based on averages in large populations.

[2]"Society of Actuaries Releases New Mortality Tables and an Updated Mortality Improvement Scale to Improve Accuracy of Private Pension Plan Estimates," press release, October 27, 2014.