Corner

The challenge of the longer lifespan

How financial advisers can help clients face the threat of outliving retirement savings

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"Live long and prosper," *Star Trek*'s Mr. Spock and his fellow Vulcans liked to say as a valedictory blessing. But for most people, living long will pose the greatest threat to their prosperity, cautions **"We'll Live to 100 – How Can We Afford It?,"** a recent (May 2017) white paper published by the World Economic Forum (WEF).

States – will face a steadily intensifying financial crisis as more of the global population falls short of meeting its retirement income needs. The primary culprits: rising life expectancies and chronically low (and generally declining) savings rates. Given these troubling forecasts, the WEI calls for immediate action in the form of major governmental policy changes to stave off poverty in old age.

Financial advisers are on the front lines of dealing with the crisis at an individual level. For them, it has important fiduciary ramifications because most clients engage advisers – especially financial planners – to help them achieve lifelong self-sufficiency. As advisers may find it necessary to place greater emphasis on managing longevity risks for clients, it behooves them to better understand the problem.

Life expectancy has been increasing by about one year every five years. A child born in the United States now is projected to live to age 104. Most retirement systems were designed to provide financial support for 10 to 15 years of retirement, and the age thresholds of those systems have not increased nearly enough to account for rising life expectancies.

Meanwhile, multiple factors are also making the traditional retirement-plan vehicles less dependable for the future. The number of people working and paying into the Social Security system, relative to the number of retirees taking money out of it, is plummeting due to declining birth rates and increasing longevity – which results in people spending more of their lives retired.

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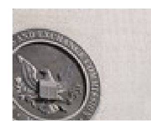

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contribution plans. Young people entering the workforce now change jobs more frequently than did earlier generations, and they often are choosing non-traditional employment such as joining new firms or even starting their own. This trend can make access to, and full utilization of, company-sponsored retirement plans more difficult.

In the one area over which individuals have real control – their saving and investing behavior – the aggregate statistics are also bleak. According to the U.S. Bureau of Economic Analysis, the current personal savings rate (that is, personal savings as a percent of personal disposable income) is just 3.8%. In a 2016 report entitled "The State of American Retirement: How 401(k)s have failed most American workers," the Economic Policy Institute (EPI) reports that "for families headed by working-age workers (age 32-62), participation in any type of [retirement] plan fell from 60 percent in 2001 to 53 percent in 2013" and "the median family had only $5,000 saved in these accounts."

STEPS TO TAKE

What can fiduciary advisers do to help clients achieve lifelong income objectives? Here is a step-by-step action plan.

1. Gather information about factors likely to influence the client's life expectancy (such as personal and family health history) and evaluate the client's likely longevity risks.

2. Educate the client on these longevity risks and the basic tools for managing them: work longer, spend less, save more, and prioritize current and future goals and objectives.

Accounts with strong investment options can be considered an important retirement savings vehicle: Withdrawals to pay qualified health care costs are penalty- and tax-free; plus, starting at age 65, withdrawals for other expenses are treated the same as withdrawals from a 401(k) plan (that is, penalty-free, though they are taxable, at the individual's current rate).

4. Consider longevity risks when selecting investment options. Guaranteed lifetime income options (e.g. annuities) are attractive to assure continuous baseline income. Investing for higher returns, by increasing equity exposure (and accepting the accompanying risks) may be necessary both before and after retirement to improve the likelihood of meeting income objectives later in life.

5. Maintain documentation of professional diligence in considering longevity risks in client records.

6. Update the facts and circumstances associated with longevity risks for the client when monitoring. Keep in mind that longevity risk rises with age – the longer you live, the more your life expectancy increases.

Even in the face of mounting obstacles, it's still possible to "live long and prosper" – and the people who do will probably have an adviser to thank for helping to make that possible.

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