



Retirement Planning

Those entering retirement often misperceive the length of their investment horizon. Just how long does your portfolio need to last, you ask? Well, that all depends on how long you'll probably live. But that's where the misconception is! How long will you statistically live?

We all know that life expectancy is somewhere around 77. But what does that really mean? Life expectancy is based on a birth year. The life expectancy¹ for people born in the year 1900 – the turn of the 20th century – was about 50. That means 50 percent of the people born in 1900 were expected to live beyond 50 while 50 percent were expected to have died before reaching it. So life expectancy is statistically the '50/50' age that people will live to.

The life expectancy for a person born in the year 2000 – the turn of the 21st century – is 77. So 50 percent of these people will live beyond the year 2077. We can see that life expectancy has increased by about 50 percent during the 20th century. Improved medical care and health account for most of this.

Now here's the rub

First, these life expectancy values are an average of everyone born in a certain year. Life expectancy has a finer grain variation based on a person's sex and socioeconomic status. For people born in the year 2000, women's life expectancy is 79.9 while men's is only 74. Well-off white-collar workers will statistically live longer than poorer blue collar workers. How you are able to control your living style and health clearly has an effect on your life expectancy. So you're not destined to kick the bucket at the 75-year mark!



Second – and more amazing – is that the older you get, the further beyond your original life expectancy you're expected to live! That's because you've survived early death statistics that restricted your original life expectancy based on your birth year.

Insurance statisticians keep track of this extended life expectancy for persons based on their current age. The IRS publishes its own tables on these. It's called 'the life expectancy factor' which is the number of years more you have to live – statistically. You have a 50 percent chance of outliving these too! See the table for examples taken from the IRS's table.

Current age (yrs)	IRS Life expectancy Factor (yrs)	Projected life expectancy (yrs)
60	25.2	85.2
65	21	86
70	17	87
75	13.4	88.4
80	10.2	90.2
85	7.6	92.6

All this comes down to the statistical fact that retirees have generally a much longer investment horizon than they think. When you plan out – or re-evaluate- your retirement years, be sure to prepare your living style, portfolio, and withdrawal rates to keep your portfolio robust so it'll be there as long as you will – statistically!

Of course, each of us is different, and your health situation may make a significant difference. Give us a call so we can help position your portfolio for projections consistent with your investment horizon.

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