

The Longevity Equation

'How long will I live?' If only we could answer that question! It would make retirement planning so easy. Plug in the number of years and the funds needed per year, build in some inflation protection, and voila!—one foolproof retirement package. Unfortunately, the rub is that no one really knows how long the money has to last. All we can do, of course, is base our planning on average life expectancies. But this is one of the most misunderstood aspects of retirement. When you consider that most people would rather not think about their own death, it's strange how many of us *underestimate* how long we will live. The reason is that life expectancy for any individual is a moving target. For example, if you were born in 1950, your life expectancy *at birth* was 68.2 years. (That's an average of men and women, and all races; one good source for details on life expectancy is www.info-please.com.) But that figure takes into account that many people will die young—in car accidents, or military service, or job injuries, to say nothing of fatal illnesses that can strike at any age.

But once you get to age fifty-five, many possible causes of death have been eliminated or reduced. You probably don't drive as fast as you did at age twenty, you're not likely to die in war, and so on. In other words, once you've made it that far, there's a good chance you'll live way beyond your at-birth life expectancy. Right now, an American man in good health who makes it to age sixty-five has a 50 percent chance of living to age eighty-five. He has a 25 percent chance of making it all the way to ninety-two. For a woman, the corresponding figures are even higher. She can expect a 50 percent chance of living to eighty-eight, and a 25 percent chance of making it to ninety-four. So the odds are good that you'll be around in retirement for a long, long time—perhaps even *forty years*.

Age	Life Expectancy	Years out of the workforce (if retired at 65)
65	83	18
70	85	15
75	86.5	21.5
80	89	24

Source: National Center for Health Statistics, National Vital Statistics Report, Vol. 53, No. 6

That's a long time to go without a paycheck, and another reason why you need more for retirement than you might think.

FACTORING IN GOOD HEALTH

Modern medicine is why Americans are living longer in retirement. Yet, paradoxically, medical care can be one of the costliest drains on retirees. We talked about 3.5 percent average inflation. Health care costs break that mold. In 2001, they rose 8.1 percent, totaling 14 percent of the nation's gross domestic product.

In 2003, health care consumed 10.3 percent of pretax income for seniors aged sixty-five to seventy-four, and 15.1 percent of pretax income for folks seventy-five and older. That's a huge chunk of retirement funds! It's estimated that a sixty-five-year-old couple retiring now will burn through \$190,000 in health care costs during their retirement -- above and beyond Medicare benefits.

What that figure does *not* take into account is the cost of assisted living or nursing-home care. If you're currently helping parents with long-term care issues, you already know how expensive that can be. The costs vary widely across the country, so it's impossible to generalize. Assisted living, a relatively new concept geared to retirees who need help with daily activities but don't require the intensive medical care of a traditional nursing home, can run \$10,000 to \$75,000 annually, depending on where you live and the level of service you need. Nursing homes cost more -- from \$45,000 to \$125,000 annually -- but also qualify for Medicare, which may pay for some of the cost. The best way to prepare for the possibility of assisted living or a nursing home is to buy long-term care insurance, starting at about age fifty-five. (Buying it sooner exposes you to the risk that you'll die before you need it; buying it later will cost more.) The best way to prepare for the overall cost of retirement health care is to plan for high medical bills when you calculate your retirement savings.

Bottom line: If you want a number to shoot for, \$1 million will buy a healthy couple a modest retirement. But if inflation spikes or your health deteriorates, you could run out of money -- especially if your portfolio hits a land mine, like the 2001-2002 bear market. A considerably more secure retirement can be funded with \$2 million, spinning off a six-figure income and protecting you against inflation and medical costs. If you are not there yet, read on. The rest of this book will help you get there.

An Excerpt from 'Two for the Money: The Sensible Plan for Making it All Work' by Jonathan and David Murray with Max Alexander (Avalon Publishing Group; May 2006)