Can We Afford to Live to 100?

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Some of us may retire at 65 and live to 100 or 105. Advances in health care may make this a strong possibility. The corresponding question is: will we outlive our money? Our increased longevity poses a retirement planning challenge.

More people are spending more of their lives in retirement. According to the actuaries at Social Security, today's 65-year-olds have roughly a 25 percent chance of living into their nineties, and about one in ten will live to 100 or longer. Clearly, this puts a strain on Social Security. When it first sent out retirement benefits in 1940, the average life expectancy for a 65-year-old was 79. It was not designed to fund 30-year retirements.[1,2]

Social Security aside, many Americans are retiring with inadequate savings. A Vanguard study says that retirement savers aged 65 or older have average balances of just $197,000 in their workplace retirement accounts. IRA distributions, home or business sale proceeds, and pension and Social Security income may help them out in the first decade of retirement, but what about the decades that might follow?[3]

Three factors may lead us into a gigantic retirement crisis. People are not saving enough, they are living longer than ever, and the retirement planning process now emphasizes self-reliance. These challenges amount to a "perfect storm" for the financially underprepared and unfortunate – a population that threatens to grow.

There are three ways pre-retirees can respond to these challenges. One, retire later. Two, save and invest more and spend less. Three, consult a financial professional about retirement planning rather than going it alone. If Gen Xers and baby boomers are lucky, they may see a fourth response in the form of legislative changes to help retirees.

Retiring after age 70 could become the norm in 10-15 years. Pair healthier seniors and new technologies, and you could see millions of septuagenarians working 40-hour weeks. Retiring at 75 could leave us with ten fewer years of retirement to fund.

Retirement saving is not a top priority for many households, especially given today's economic pressures. That does not mean it can be ignored. We used to save more than we do now: the U.S. personal saving rate routinely exceeded 7 percent until the mid-1990s. During the Great Recession, it reached 8.1 percent; in September 2017, it was down to 3.1 percent, with personal saving levels mirroring those seen right before the Great Recession.[4]

How many pre-retirees chat with a financial professional about their goals and investment approach? How many have defined goals and investment approaches? Yes, this sort of consultation is not free – but it may be worth every penny, just in terms of offering insight as well as possibly steering pre-retirees away from retirement planning errors.

If enough seniors struggle to make ends meet (or if there is a national emergency of senior homelessness or indigence), we could see the federal government respond by boosting retirement benefits. Cutting Social Security benefits would be unthinkable in such a crisis, so payroll tax (and the amount of income subject to it) could increase instead. The resulting inflows could potentially help Social Security's balance sheet as well as its beneficiaries.

We are all financially challenged by increasing longevity. Assuming we need 30+ years of retirement income is not unorthodox, merely pragmatic. From that assumption, we can plan for our futures with an understanding of how much money we may need to live comfortably and pursue our dreams.

Citations.

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2 - fool.com/retirement/2017/03/21/11-facts-about-social-security-every-retiree-shoul.aspx [3/21/17]
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4 - fred.stlouisfed.org/series/PSAVERT [10/30/17]