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Lengthening life spans affect savings plans

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Ever thought of the possibility that you could live to be 100?

Maybe you don't want to hit the century mark, but more of us will, which means that we have to start today to ensure that we have enough money to sustain us in that long retirement.

Unfortunately, most people have no idea how much money it really takes to live a decent retirement.

"If a person retires at age 60, living to 100 means that they could very well be retired longer than they ever worked," said Bryan Clintman, a certified financial planner at Clintman Financial Planning in Southlake.

That scenario is closer than you think.

U.S. life expectancy reached nearly 78 years in 2007, the latest year for which information is available, and has been increasing each year, according to the Centers for Disease Control and Prevention.

"More than half of babies born in rich nations today will live to 100 years if current life expectancy trends continue," experts at the Danish Aging Research Center at the University of Southern Denmark wrote in an October article in *The Lancet* medical journal.

"And we are not only living longer than before, but those extra years are spent with less disability and fewer limitations on daily life than in the past."

That means we'll need more money to enjoy those years.

The challenge is getting people to understand the importance of planning for longevity, say experts.

"Life expectancy now is close to 80, yet less than 20 percent of the American population in their 50s has even tried to design a retirement plan," said Olivia Mitchell, professor of insurance and risk management at the University of Pennsylvania's Wharton School.

"If you add another 20 years on top of that, then people need to become much more knowledgeable about saving and investing for retirement."

Some people think they're more prepared for retirement than they actually are, she said.

"Far too often people think, 'I'm rich, I have \$50,000 or \$100,000 in my 401(k),' not realizing that if they were really to spread it out in such a way that they wouldn't run out of money, then they'd have to be very, very cautious," Mitchell said.

"Fifty percent of the people live longer than their life expectancy, so right there you have a significant group that should be concerned about running out [of money]," she said.

Health costs

One of the biggest landmines in retirement is health care, particularly long-term care, Clintsman said.

"With the cost of long-term care approaching \$100,000 per year, few retirees' portfolios can withstand the hit of several years in such a care facility," he said.

"One of the saddest things I see is a married couple who enters retirement at age 65, then one of them comes down with something really cruel like Alzheimer's, spends the next five years in a facility draining their retirement assets, then dies, leaving the surviving spouse to live on almost nothing for the rest of their retirement."

For that reason, Clintsman recommends long-term care insurance to help protect a person's retirement nest egg.

Long-term care

Thomas Murphy, a certified financial planner at TEMAA Financial in Dallas, said you should "plan under the assumption that you're going to need additional custodial care at a certain age, figure out what the cost is going to be, put aside that amount of money for that purpose or buy an insurance policy."

Your other option, he said, is to plan on living with your children.

"Living a long time is probably one of the better examples of people sticking their head in the sand," Murphy said. "It's like, 'If it happens, then I'll deal with it.' By then, it's going to be too late."

If you consider that the average stay in a nursing home is around two and a half years, "it is very easy to see what kind of impact this can have on a portfolio," said Michael Miller, certified financial planner at Miller Premier Investment Planning LLC in Mansfield.

"If it is determined that long-term care costs would wipe out a client's savings, and they want better living conditions or choice than a Medicaid-type arrangement would provide, then that needs to be incorporated into the retirement plan," he said.

Make plans now

The way to keep from panicking is to start now in figuring out what your financial needs will be in retirement.

"The first step is to get a current assessment of what your retirement expenses will be and what resources you have to cover them," said Jimmy Perryman, certified financial planner at Perryman Financial Advisory Inc. in Dallas. "If you still have debts other than a mortgage, now would be a good time to aggressively pay them off and strive to live within your means. Excessive discretionary spending can unnecessarily eat away your nest egg," which further increases the likelihood that you'll outlive your assets.

Murphy said the key in retirement is "after-tax spendable income," and he cites a rule of thumb to illustrate why it's important to start early and save consistently for retirement.

"After determining how much income you need after Social Security and any pension," he said, "the general rule of thumb is for every \$50,000 of income [you'll need annually in retirement], you'll need to have saved \$1 million by the time you retire."

Invested wisely, he said, that should enable you to maintain purchasing power in the face of inflation – even if you live to 100.