Why is Longevity Important?

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For anyone around retirement age you should be pleased to know that on average your chance of reaching age 90 is about double what it would have been if you had been born a generation earlier. Human longevity has been increasing fairly steadily over recent decades due to improvements in medical science as well as lifestyle and environmental factors.

This may make you feel better. And so it should, assuming you relish the idea of a longer lifespan. Then after a brief glow of self-satisfaction your thoughts move onto another topic. But the increase in longevity is much more than a "feel-good" factor. Understanding the concepts and applying easy to-find information can make a dramatic difference in your financial decisions today with far-reaching results for decades.

First let's be clear about the concepts behind measuring and applying longevity calculations. Longevity calculations forecast estimated future lifespan based on averages of a large population. Neither forecasts nor averages provide specific results at the individual level. But the two concepts of forecasts and averages are quite different in their application and usefulness to financial planning.

Forecasts in the longevity field have an unusual characteristic compared to forecasts in economics or the stock market. They're much more likely to be usefully accurate (which admittedly is different from totally correct). Trends in medical science improvement and lifestyle tend to be persistent and of long duration. We don't know exactly what advances will occur or when specific gains may be made, but in aggregate the direction and pace of advances are relatively stable.

Ask a dozen actuaries how the likely average longevity of 80-year-old Americans will change over the next decade, and you'll get a much narrower range of estimates than if you ask a dozen stock market "mavens" to forecast the move in the S&P500 in the next year. Unfortunately this is not because actuaries are innately better forecasters; it's in the nature of the forecast. These actuarial forecasts are reflected in the pricing of financial products that depend in any way on life expectancies. For individuals and institutions that includes annuities, insurance and liability-related products.

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While there is scope for identifying and using better longevity forecasts on an institutional basis, the real opportunity to improve financial decisions for individuals is in the use of averages, the second concept inside those longevity calculations.

Would you like to take advantage of some inside information? If you're employed in the financial industry, a question like this should have you reaching for the phone immediately to call your Compliance team! But in longevity estimates, every individual has inside information….literally. The information inside you, about how you differ from the average (physically, mentally, and in terms of lifestyle or environment) can provide critical assistance in making major financial decisions. Knowing how an individual's personal life expectancy varies from the average can make a big difference: find the right financial product at a great price, or make an expensive mistake that lasts literally for a lifetime.

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We're told that "buying a house" is the biggest financial decision that most people make in their lifetime. For the baby-boom generation approaching retirement, that's not true. Their biggest financial decision is whether to turn a retirement lump sum into a lifetime income stream. Unlike buying a house, that may be an irreversible decision. And the value of a $100,000 lifetime annuity for a typical 65 year-old can be well over a million dollars. That's quite a bit more than the average house, especially in today's market! And unlike buying a house, most retirees are singularly ill-equipped to understand the calculations behind that decision, and are highly dependent on good advice.

The "inside information" gained from taking a short (and non-invasive!) test to improve the estimate of your specific life expectancy can make a big difference in financial decisions. How do you get that information edge? Take a LongevitAge test: you can find one in the LongevitAge section of the Longevity Financial Consulting website. Because of individual health and lifestyle factors, everyone's life expectancy is different from the average of others the same age and gender. LongevitAge℠ is your actual age, adjusted for that difference.

With better information on your LongevitAge and on future life expectancy, you can review many financial decisions through a different lens, one with the odds on your side; understanding when the odds are in your favor can be very profitable. Armed with that information, here are six decisions that you can improve:

- Time horizon planning: should you really care how long you may live? This is a critical input in deciding retirement asset allocation between stocks, bonds, cash or other investments. The longer your expected lifetime, the higher the risk of "money death": running out of money as you draw down portfolio assets.

- Purchasing annuities: this is typically an irreversible decision. For some annuity contracts, once you've handed your money over to the insurance company, you're not getting it back if you change your mind (even if you can redeem your assets surrender charges and penalties may be significant). Depending on your LongevitAge, some types of annuity may be great bargains and others may be a bad deal compared to other ways to invest your assets.

- Life insurance decisions: there's a good reason why medical exams are requested in life insurance applications, but when you buy an annuity the only physical qualification needed is the ability to write a check. You have "inside information" that the insurance company needs when it is betting against your longevity (e.g. a life insurance policy). Use it yourself in making life insurance as well as annuity decisions.

- Timing on taking Social Security and other pensions: should you take your pension earlier but accept less monthly income for the rest of your life? Or start later so you get a larger income but for fewer years? Pension providers typically use average longevity expectations for the whole population. You are not the average, and your LongevitAge estimate may give you the chance to swing the financial impact of that decision dramatically in your favor.

- Long-term care: this potentially has a major financial impact in later years and needs to be factored into retirement planning. Is a long-term care policy the best approach, or can the financial needs be better addressed by other investment or annuity options? Your "inside information" on longevity can be the key factor in making the best decision.

- And last, but not least, learn how to improve your LongevitAge: increase your chance of a longer and healthier lifespan. While some of the factors determining your life expectancy are "locked in" (for example, your hereditary background) you can actually improve your odds in the health and lifestyle areas. Sure, these may be lifelong habits and hard to change, but just knowing how some minor changes can tilt the years in your favor may be the additional incentive you need!

Source note: Mortality statistics sourced from the Human Mortality database at mortality.org, 1974-2007, as of February 2012

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