Financial Planning

Longevity Risk: Live Long and Prosper

In addition to the usual financial risks we have — such as inflation risk, market risk, and economic risk — there is another risk to confront in retirement…longevity risk.

Longevity risk is the risk of outliving your retirement assets, due to an increased life expectancy. Often these risks are underestimated by pre-retirees. According to a recent survey conducted by Nationwide Mutual Insurance Company[1], baby boomers age 50 and older who have not retired yet are expected to live an average of 20.7 years in retirement, while boomers who have already retired are expected to live 27.1 years — this is 31 percent longer than their still-working counterparts. Understanding how long you may live helps you determine how long your retirement savings need to last.

Essential vs. Non-essential Expenses

When planning your retirement, it's important to make sure you have enough income to pay for essential — ongoing, non-discretionary expenses such as food, shelter, transportation, health care, clothing, and taxes. These expenses will likely increase with inflation, and because they're "necessary," it will be challenging to reduce them when you retire. Non-essential (discretionary) expenses include activities that are important to you but not required, such as eating out, travel, entertainment, charity, hobbies and gifts.

Retirement Funding Vehicles for Essential Expenses

A strategy often used to provide for your essential expenses is to plan for and secure various sources of assured income, and to have non-essential expenses paid from other income sources. Examples of assured income streams include social security, pensions and annuities. Although many of us recognize the value of pensions, unfortunately, fewer and fewer of us have employers that provide them. However, an annuity may be able to fill this gap by providing a pension-like income stream. Using this approach may give you the security of knowing that the most important income needs in retirement will be covered by a reliable income stream.

[1] Nationwide Financial Consumer Survey-Conducted by Harris Interactive 2013

Lifetime Annuity Income Guarantees[2]

Annuities are contracts issued by insurance companies and come in various types that can generate a guaranteed income stream. Deferred annuities delay access to income for a certain number of years, while an immediate annuity starts income shortly after a policy is put in force. Regardless of the type of annuity purchased, they can be structured to provide a person a guaranteed income for life — no matter how long they live. Annuity lifetime income guarantees can help alleviate risks (and stress) in retirement by adding a certain monthly income stream in addition to social security and pension income.

There are a variety of investment and annuity options to consider in retirement planning. Contact your Benjamin F. Edwards & Co. financial consultant for help with an analysis of your projected expenses and potential risks in retirement, and discuss whether or not an annuity might be appropriate for your specific situation. ■

[2] All annuity income guarantees are subject to the paying ability of the issuing company.