Longevity Risk: Three Common Incorrect Assumptions

Everyone dreams of a long, happy, and healthy life—but what happens when the dream comes true? Discussing the realities of a long retirement can help to mitigate fear, build confidence, and set up clients to live and age the way they want.

Life-expectancy and end-of-life planning can be tough subjects for even the most open clients. In fact, a study discovered that only 12% of U.S. adults have strong longevity literacy.[1] This lack of knowledge can impede adequate planning, especially as it relates to healthcare and assisted-living planning, aging in place, and hedging longevity risk in retirement. The lack of preparation creates a self-fulfilling cycle: Clients become overwhelmed by the many ways things could go wrong, assume their hopes for their later retirement years are impossible, and guarantee their own disappointment through inaction. How can you discuss the risks in a way that keeps them confident and on track?

Assumption 1: Market Risk is More Important Than Longevity Risk

With so much to consider, determining risk for pre-retirees can be complicated. In 2022, research economists with the Center for Retirement Research in Boston found that many seniors may have an exaggerated understanding of market volatility and its effects on retirement savings. They also tend to be pessimistic about their own life expectancies, possibly because of their anecdotal experiences with parents' and grandparents' ages of death. But when "objective risk levels are ranked, the result shows that longevity risk ranks at the top" of all retirement risks, followed by health and market risks.[2]

Of course, it's impossible to predict exactly how long a client will live, but resources like our [Longevity Calculator] can help you start the conversation and build a foundation to determine how long your client's money may need to last. And, with continuous advances in healthcare and technology, it's always a good idea to check in every few years.

Assumption 2: 70% of Seniors Will Require Extensive Healthcare Services

While this statistic is technically true, many don't fully understand what is implied by the phrase "extensive healthcare." This concept does not inherently entail lifelong, high-support care—in fact, the truth is quite the opposite. Research shows that 17% of seniors will live their lives without ever needing any form of physical assistance with their healthcare, and only 22% will need high levels of care for more than three years. The vast majority—56% of surveyed seniors—will only need care at any level for three years or fewer.[3]

Those numbers paint a vastly different picture from the initial assumption. This added context can help you start vital discussions with clients who may be anxious about their life expectancies. Planning to fund a few years of high-level healthcare or assisted living may feel more manageable for these clients and open the door to nuanced discussions about caregiving preferences, protected income to cover costs, and other sensitive topics.

[1]Yakoboski, PJ, Lusardi, A, Sticha, A. An unrecognized barrier to retirement income security: Poor longevity literacy. TIAA Institute. August 2023.
[2]Wenliang Hou. How Accurate Are Retirees' Assessments of Their Retirement Risk? Center for Retirement Research at Boston College. July 2022.
[3]Anek Belbase, Anqi Chen, and Alicia H. Munnell. What Level of Long-Term Services and Supports Do Retirees Need? Center for Retirement Research at Boston College. June 2021.

Assumption 3: Delaying Social Security Retirement Benefits is an Option to Hedge Longevity Risk

Clients who delay claiming Social Security retirement benefits tap into a powerful resource for hedging longevity risk. But, while powerful, delaying benefits is not the *only* option at their disposal. Depending on a client's specific circumstance, several strategies could be excellent additions to his or her retirement plan.

For example, clients who plan to retire at their full retirement age could benefit from a deferred income annuity (DIA). A DIA can give a client access to protected income later in life. Plus, if they don't use the money in the account, it can be bequeathed to a beneficiary. Other income strategies like single-premium immediate annuities and variable and fixed annuities with guaranteed lifetime withdrawal benefits, available for an additional cost, can be helpful depending on your client's personal risk tolerance, behavioral profile, need for flexibility, etc.

Hard Conversations Now Can Lead to Better Outcomes Tomorrow

While conversations about life expectancy and longevity can be hard to broach, the benefits to your clients' lives in retirement make it well worth the effort. Taking steps to prepare clients for whatever may come their way can help to cultivate confidence and add immeasurable value to your client relationships.

Additional Resources and Links

The Longevity Lesson from Social Security

Longevity Calculator

Hedging Strategies to Help with Longevity Risk for Pre-Retirees (Pt. 1)

ACTIONS YOU CAN TAKE RIGHT NOW

- **Identify clients who are pre-retired or newly retired.**
- **Discuss and evaluate their potential longevity.**
- **Consider lifetime income strategies for each client.**

For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.

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