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Live Very Very Long and Prosper

As more people live into their 90s and beyond, financial planning becomes even more important—and trickier

By Suzanne Barlyn

The possibility of living into my 90s seems like a gift on most days—one that, if I'm lucky, I've inherited from my long-living ancestors. But it can also feel like a burden.

At age 45, I can still call my grandmother to hear stories about the Great Depression. She turned 97 this year. More than half a dozen close relatives have lived into their 90s, and that's just going back to my great-grandmother.

A long life, of course, can be a blessing. But financial advisers typically use a more-daunting term: longevity risk. It's the reason that many develop retirement plans that assume their clients will live to at least age 93, reflecting the growth of the country's oldest population. The number of Americans who live to age 100 or greater increased 43% between 2000 and 2010, to 71,991 from 50,454.

The concept of planning for my financial well-being in 50 years is so overwhelming, it's easier just to ignore my family history. But there are tricks to thinking so far ahead. One is to break long- and short-term goals into smaller parts, so each seems more doable, says Lisa Kent, a Princeton, N.J.-based vice president and wealth-management adviser for Merrill Lynch & Co., a unit of Bank of America Corp.

What follows are some of the parts that go into planning for a very long life:

Don't Play It So Safe

Investors typically retreat from stocks in the years before they retire, slowly shifting their portfolios from growth and income stocks to more conservative fixed-income bond portfolios. Some future retirees, for example, may decide to allocate at least 60% of their portfolios in high-grade bonds by age 60.

Funding a retirement well into my 90s, though, could require investing more in equities until age 70, says Vivian Groman, senior adviser at Starmont Asset Management in San Ramon, Calif. How much risk I accept should depend on how much I've saved, my lifestyle and the health of the economy at that time, Ms. Groman says.

Building a portfolio of fixed-income investments with laddered end dates is another option, says Ms. Kent. An 80-year-old investor, for example, can "ladder" short- and long-term securities, such as bonds, so that something comes due to generate income every year for 15 years until age 95.

Those same investors should also take on some risk by combining laddered bonds with a longer-term, diversified global equities portfolio that can generate higher returns. Just make sure you know the tax consequences of the overall portfolio.

Target-date funds, which mix stocks and fixed-income investments in allocations that shift as investors age, can work, too, with some caveats, says Jim Ludwick, founder of MainStreet Financial Planning Inc. in Odenton, Md. The funds, which are designed for investors who plan to retire around a certain date (say, at age 65 in 2031), typically become more conservative over time. Live long, however, and the fund could become conservative too soon. For people in my shoes, Mr. Ludwick recommends picking a target-date fund that matures about 10 to 15 years after a traditional retirement age. My overall portfolio will influence the date I choose, since I should combine my target date fund with other income sources, like income funds and annuities.

Longevity Insurance

Longevity insurance, also known as a deferred fixed-income annuity, is gaining traction among some advisers. This is effectively giving a lump sum to an insurance company in exchange for monthly income that can start at age 85.

Here's how it can work: A 54-year-old male pays $10,000 for an annuity. He then pays $3,103 per year for the next 29 years, until age 83 (putting a total of about $100,000 into the annuity). He'll receive $52,300 per year, beginning at age 85, based on current prices. Making additional payments toward the annuity along the way increases the payout later.

Other fixed-income annuities start paying at 65. Your monthly income, however, will be lower than if you buy an annuity that starts paying at age 85.

Many planners warn that certain annuity and insurance products carry high fees and other expenses that can eat into an investor's bottom line. But those concerns are typically more relevant to variable annuities, whose value changes depending on underlying investments.

Fixed-income annuities don't have explicit ongoing fees and expenses, according to Chris Blunt, executive vice president in charge of Retirement Income Security for New York Life Insurance Co. You can keep more of your own money, however, by shopping around for the best payouts from insurers. An insurance company's potential financial health in 30 years may be another concern, so find companies with triple-A or double-A claims paying ability ratings.

There are, however, downsides to consider, says Kevin Kautzmann, a certified financial planner for EBNY Financial LLC in New York. You're giving up control of your cash and liquidity, he says. Stashing away money to earn a payout equivalent to, say, 4% interest also may not seem appealing if rates have risen to 7% when the payouts begin, he says. As an alternative, Mr. Kautzmann says, certain short-term bonds and dividend-paying blue chip stocks can also generate long-term income while offering more flexibility.

Planning for Health Care

Inadequate health-care coverage can wipe out a nest egg.

Many retirees covered by Medicare find they've underestimated their actual out-of-pocket costs, which could be hefty for someone without supplemental insurance. There's a $1,132 deductible for 2011 before Part A coverage kicks in for hospital stays of up to 60 days. Medicare Part B, which helps cover doctor visits and other outpatient treatment, costs at least $115.40 a month for new enrollees this year—and could cost more if one's modified adjusted gross income is above $85,000 for individuals or $170,000 for married couples.

Long-term care expenses can also be a threat. A private long-term-care insurance policy, which pays for certain home-health-care expenses or nursing-home care, can be some insulation from financial ruin. I'll start looking for a policy in my 50s, since the premiums will rise if I buy coverage later. The average buyer is 57 and pays $2,150 in annual premiums, says the American Association for Long-Term Care Insurance, based in Westlake Village, Calif. Premiums for couples can come with a discount, depending on health and other factors. Prices also depend on things like the term for which services may be covered and whether there is a waiting period from the onset of illness.

Assisted living could be an option for a 90-something person in good health. But it's not always covered by insurance, so that means stashing away more money while I can.

Silver Lining

Fortunately, my heredity may also offset some future expenses. The final health-care costs for someone who dies at 100 are typically about one-third of the costs for someone who dies at 67, says Nir Barzilai, director of the Institute for Aging Research at Albert Einstein College of Medicine of Yeshiva University in New York. People who live so long tend to be healthier and more likely to die from a problem quickly, Dr. Barzilai says.

I'll have to save—and spend—a fortune to get to that point, but at least my final ride may come at a discount.

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Long Live.....Me!

Longevity calculators estimate how long you may live. Heredity can play a role, but other factors, such as diet and automobile safety, are also important. I tried four online calculators, which analzyed my answers to questions about lifestyle, stress, economic background and more. They all predict that I could live into my 90s.

—*Suzanne Barlyn*

HOW LONG WILL I LIVE?

URL: gosset.wharton.upenn.edu/mortality/perl/CalcForm.html

DEVELOPED BY: Dean P. Foster, professor of statistics at the University of Pennsylvania's Wharton School, and two colleagues

MY AGE EXPECTANCY: 90 (my average expectancy). But can range from about 83 to 98.

DESCRIPTION: Includes 40 questions that address family health issues, driving habits and whether my job involves manual labor. Not as visually appealing as other longevity calculators.

VITALITY COMPASS

URL: apps.bluezones.com/vitality/

DEVELOPED BY: Blue Zones, LLC, which studies longevity and promotes healthy lifestyle, in conjunction with the University of Minnesota School of Public Health

MY AGE EXPECTANCY: 95

DESCRIPTION: Many questions address recent behaviors, such as vegetable servings during the past week. It suggests I could add 3.6 years to my life making certain lifestyle adjustments, such as eating more whole grains and drinking more alcohol (I barely drink any).

LIVING TO 100

URL: livingto100.com

DEVELOPED BY: Dr. Thomas Perls, founder and director of the New England Centenarian Study at Boston University School of Medicine

MY AGE EXPECTANCY: 95

DESCRIPTION: Asks 40 questions that gauge ability to cope with stress, coffee intake, family longevity, and certain preventive care, such as using sunscreen. Suggests I may live another year by cutting back sweets.

THE LONGEVITY GAME

URL: northwesternmutual.com/learning-center/the-longevity-game.aspx

DEVELOPED BY: Northwestern Mutual Life Insurance Co.

MY AGE EXPECTANCY: 98

DESCRIPTION: Calculates life expectancy in a game-like format. Assigns a baseline expectancy, which it adjusts as I answer such questions as the age at which family members developed heart disease. I earn extra years for exercising, eating vegetables and wearing a seat belt.