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Good News: The Longer You Live – The Longer You Live

The Bad News: Insurance Companies Are Rolling Out New Rates To Reflect the Increase In Life Expectancy

The Society of Actuaries (SOA) released new mortality tables last October that reflect substantially increased longevity for 65-year-olds in comparison with SOA's year 2000 tables. The new tables show a 10.4% life expectancy increase for 65-year-old men (compared with 2000), from 19.6 years to 21.6 years, and an 11.3% improvement for women, from 21.4 years to 23.8 years since SOA's 2000 tables.[1]

In 2010, an estimated 524 million people were aged 65 or older—8 percent of the world's population. By 2050, this number is expected to nearly triple to about 1.5 billion, representing 16 percent of the world's population. In many countries, the oldest old are now the fastest growing part of the total population. [2] [3]

The Good News Is: The longer you live – the longer you live. It wasn't until the 20th century that mortality rates began to decline within the older ages. More recent research shows continuing improvement in life expectancy among those aged 80 or above. The survival improvements in these oldest age groups was a surprise to demographers. Data on life expectancies between 1840 and 2007 show a steady increase averaging about three months of life per year. [3]

The Bad News Is: The longer you live – the longer your retirement funds need to last. The dramatic increase in average life expectancy during the past 100 years is an incredible achievement by our society. Improvements in diet, medical care, and healthier lifestyle have all credited the increase in life expectancy in America. People are living longer and insurance companies who offer lifetime guaranteed income must change how they plan for income liability; this will certainly affect Guaranteed Lifetime Income Riders.

In the past few years a "perfect storm" has been slowly developing, a storm that will have a negative effect on retirement planning. Since the financial downslide America faced in 2007, general interest rates have declined to historic lows, resulting in a very low rate offered by US Treasuries which are the financial backbone for investment used by insurance companies. Since US Treasuries provide a fully guaranteed asset, many companies have a large percentage of their assets in this category. Interest rates dictate the payout guarantees offered by insurance companies and when they are very low, planning for often decades of future financial responsibility becomes more negative.

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Combine the low interest rate environment with the increase in life expectancy and insurance companies are faced with a true “perfect storm”.

To address the future financial liability, several companies are lowering the guaranteed factor used to calculate future retirement payouts. One company, effective January 2016, reduced their guaranteed factor by 25%.

Will there be other companies that will follow with lowered guaranteed payouts? Yes; when calculating future lifetime income liability, insurance companies have no option except to make changes. It might be smart to make a decision for using an annuity as your retirement vehicle, prior to guarantee factors being reduced, to insure the highest possible income.

CITATIONS

1 – WE’RE LIVING LONGER — GET READY TO PAY FOR IT, GIL WEINREICH [2/9/2015] HTTP://WWW.THINKADVISOR.COM/2015/02/09/WERE-LIVING-LONGER-GET-READY-TO-PAY-FOR-IT

2 – HUMANITY’S AGING, NATIONAL INSTITUTE ON AGING [2015] HTTPS://WWW.NIA.NIH.GOV/RESEARCH/PUBLICATION/GLOBAL-HEALTH-AND-AGING/HUMANITYS-AGING

3 – LIVING LONGER, NATIONAL INSTITUTE ON AGING [2015] HTTPS://WWW.NIA.NIH.GOV/RESEARCH/PUBLICATION/GLOBAL-HEALTH-AND-AGING/LIVING-LONGER