

Planning for an Extra-Long Retirement

By Barry L. Dayley

You've probably seen the headlines. Tantalizing hints from laboratory research suggest that medical science may soon break the "age barrier" of 120 years, and that gene manipulation could allow people to live to be 140 or even 150 years old.

Much of this speculation is based on work with fruit flies, and such breakthroughs, if they occur, are probably years away. Nonetheless, the headlines accurately reflect one reality: people are living longer, much longer. And that means your bank customers will need to plan for longer retirements.

To understand what this means for community banks and their customers, let's take a closer look at the reality behind these

all deaths at all ages. If you survive to retirement age, your overall life expectancy becomes longer.

A man reaching age 65 in 1995 could expect to live another 15.6 years—nearly age 81. A woman reaching age 65 could expect to live at least another 18.9 years—nearly age 84.

This is sometimes called longevity: how long we are expected to live assuming we reach a milestone age—such as 65. Every milestone we reach increases our overall life expectancy. Furthermore, these rates of longevity are increasing. In the first 50 years of the 20th century, the longevity for people reaching age 65 increased 1.3 years for men and 2.8 years for women. From 1950 to 1995, however, longevity increased 2.7

90s are far from rare, and "Today" show's Willard Scott never has trouble finding people celebrating their 100th birthday.

Federal statistics say that one-third of the men reaching age 65, and nearly half of the women, will reach age 85. And when looking at married couples, it's even more likely that at least one will live beyond this life expectancy.

What does this mean for your customers' retirement plans? Let's say they project to draw money from their nest egg accounts, such as a 401(k) and individual retirement accounts, at a pace that depletes the nest egg roughly by the end of their life expectancy. Yet as the statistics show, they have a 50-50 chance of living beyond that average life expectancy. If that happens, they will have outlived their nest egg, and the only income they will have from then on would be Social Security payments and perhaps payments from annuities or a defined benefit plan, which will continue for the "extra" years they live.

Running out of retirement savings is a gamble most people don't want to take. Financial planners commonly project clients living to age 90 or 95. And for some people, even that isn't long enough. So while any given person may not live to 120 or beyond, the odds are increasing that they are going to live a longer time than they might once have thought.

What does this mean for retirement planning? What if you are one of those

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headlines. To understand the potential impact, you need to consider some basics about life expectancy.

Life expectancy of Americans increased nearly 30 years during the 20th century. The life expectancy of a male born today is approximately 73 years, and the life expectancy of a female is 79 years, according to federal statistics. But that's a misleading statistic for retirees. Those figures reflect

years for men and 4.2 years for women.

But even these longevity figures are misleading, because they are only averages. Half of the people reaching a particular milestone age will live beyond that age. That is, if you are a male who lives to age 65, you have an even chance of living beyond the life expectancy of age 81. We know that Americans now routinely live well into their 80s and beyond. Americans living into their

centennialists who celebrate their 100th birthday with Willard Scott?

There is no easy answer here. Long retirements suggest that people may need to be more cautious in their spending in their early years of retirement to stretch their resources out further. For others, it may mean being more aggressive in their retirement investing. Working full or part time beyond the traditional retirement age may also be necessary. It will be increasingly important to protect against the high expense of late-life health problems by buying long-term-care insurance. But most of all, many of us will need to readjust our thinking and consider the possibility of 100-year lives and what that means for our retirement.

Community banks are uniquely positioned to enhance their relationship with customers near or in their retirement years. Many of these customers were whipsawed emotionally and moved money to very conservative positions, fleeing to safety from a

declining stock market. Rather than an emotional reaction to the market, these same customers need a well-developed financial and asset allocation plan.

Increasing lifespans present an opportunity for the bank to offer personal financial planning, insurance, and investment advisory services to help customers prepare for a long retirement. Providing these services will enhance customer relationships, and can substantially increase fee income to the bank by diversifying customer relationships, providing needed insurance coverage, income guarantees, and bringing additional assets under management. **15**

Barry L. Dayley is senior vice president of Money Concepts International Inc. Money Concepts is a full-service financial planning organization that offers a world-proven Planning Centre Concept and customized programs to benefit institutions large and small.

Money Concepts can help position community banks to serve their customers in the growing investment advisory marketplace. Incorporating a Money Concepts Financial Planning Centre within a bank allows the financial institution to create and build customer relationships by providing their customers with a more value-laden platform of financial planning services. This strategy can also help banks effectively compete with non-bank competitors who have been draining deposits from the banking sector.

For further information about what Money Concepts can offer community banks, contact ACB's Helen Sullivan at (202) 857-3157 or hsullivan@acbankers.org. ACB Business Partners offers a complete menu of business solutions in mortgage, technology and payments, and financial and capital markets. Visit www.AmericasCommunityBankers.com/Partners to learn more.

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