

Stanford Center on Longevity
A TOOLKIT SERIES BRIEF

LIFE PLANNING IN THE AGE OF LONGEVITY

Insights for Boomers

Steve Vernon, FSA
Research Scholar
Stanford Center on Longevity

TAKE-HOME POINTS

- Baby Boomers can reasonably expect to live for another 20, 30 or even 40 years.¹
- Living long and living well is more realistic for people who are healthy, socially engaged and financially secure.
- As Boomers transition out of the workforce, they'll need to take steps in order to optimize their resources and effectively deploy them so these resources will last the rest of their lives.

INTRODUCTION

What steps can people in their 50s and 60s take to best prepare for the rest of their lives? It's been well documented that many Baby Boomers have inadequate retirement savings. For example, according to the 2016 Retirement Confidence Survey, only 30 percent of workers age 55 and over have accumulated \$250,000 or more in retirement savings, while 17 percent have saved less than \$1,000.² For a quick reality check, \$250,000 would generate an annual lifetime retirement income of roughly \$10,000 per year, using four percent as a rule of thumb for estimating retirement income from savings. In addition to financial issues, many Boomers face serious health challenges due to rising obesity rates, poor nutrition and lack of sufficient exercise.³

So it can be sobering to realize that a 60-year-old woman who does not smoke and reports excellent health has more than a 50 percent chance of living another 30 years to age 90, a 33 percent chance of living to age 95 and a 14 percent chance of living to age 100, according to the Society of Actuaries.⁴ A 60-year-old man with similar characteristics has a 42 percent

chance of living to age 90, a 23 percent chance of living to age 95 and an 8 percent chance of living to age 100. Given these odds, it's not unlikely to think that Boomers could easily live another 20, 30 or even 40 years.

Scientific research indicates that living long and living well is most realistic for individuals who, throughout their lives, are doing well in three domains: healthy living, social engagement and financial security.³ To this end, Boomers may want to assess their current circumstances and resources to make realistic and supportive decisions about:

- How and when to leave the workforce and retire
- How to best deploy financial resources such as Social Security and retirement savings
- What they can do to improve their health and manage health care costs
- Where they will live and how they will spend their time in retirement
- How they can connect and stay engaged with loved ones and the community

As Boomers transition out of the workforce, there are a number of critical decisions they'll likely make in the next five to 10 years with potentially lasting consequences for the rest of their lives. Thus, Boomers may need to give careful consideration to these important decisions and be willing to change any suboptimal, yet ingrained, habits. Employers, financial institutions and advisers can all play a significant role in shaping these choices and changing habits.

The Stanford Center on Longevity's Sightlines Project reviews outcomes in each of these areas that can serve as a helpful checklist of steps that people can take.³ Discussed below are issues specific to Boomers in each of the three domains; for a complete checklist, see the "Action Plan" brief.⁵

Scientific research indicates that living long and living well is most realistic for individuals who are doing well in three domains: healthy living, social engagement and financial security.

BOOMERS MUST PLAN FOR MANY MORE YEARS

A 60-year-old woman in excellent health has a...



50% chance
of living to age 90

14% chance
of living to age 100

A 60-year-old man in excellent health has a...



42% chance
of living to age 90

8% chance
of living to age 100



HEALTHY LIVING

The Sightlines Project has identified eight action steps that fall into two categories: engaging in healthy daily activities and avoiding risky behaviors. Many Boomers may need to mitigate or reverse unhealthy habits they've accumulated over the past few decades of life.

Boomers may be particularly vulnerable to a phenomenon identified by the Sightlines Project: polypharmacy—taking five or more prescription drugs on a regular basis. Many of these prescription drugs may be necessary to manage chronic health conditions and even improve quality of life over the long-term. On the other hand, for some, there may be increased vulnerability to unanticipated drug interactions, confusion and dizziness, and substantial out-of-pocket costs. Further, for many medication regimens, the long-term consequences of taking multiple prescription drugs for many years is unclear.

Many chronic conditions requiring prescription drugs, such as high cholesterol, high blood pressure and diabetes, are responsive to lifestyle changes in diet and exercise. Boomers may want to work with their health care providers to develop a medically

BOOMERS' HEALTH Of people 55 to 64 years old:



about 25%
smoke



more than 39%
are obese



more than 55% don't
exercise enough



about 37% don't get
enough sleep



about 75% don't eat enough
fruits and vegetables

Data from the Sightlines Project, Stanford Center on Longevity, 2016

supervised program of lifestyle changes that could mitigate these chronic conditions and possibly even reduce the need for complicated prescription drug regimens.

As Boomers leave the workforce, one very good use of their newly found freedom might be to focus on improving their health. And they would do well to adopt healthy habits sooner rather than later—while it's never too late to make healthy changes, the

accumulative effect of poor lifestyle choices may be more difficult to undo over time.

Many employers and health care plans offer physical wellness programs that not only provide resources and incentives to adopt healthy behaviors but that address the significant behavioral barriers that commonly hold people back. Such programs may be a good place for someone to start on a path to healthy living.

SOCIAL ENGAGEMENT

A growing amount of research links social engagement to improved health and longevity, and reduced rates of illness.³ The Sightlines Project identified Boomers as being particularly vulnerable with respect to social connectedness and engagement. For example, compared to a previous cohort assessed nearly 20 years earlier,

today's 55- to 64-year-olds are less likely to be married, have weaker ties to family, friends and neighbors, and are less likely to engage in religious or community activities.

Building a diversified social portfolio with the same intent and purpose of an investment portfolio may yield substantial benefits to Boomers.⁶ Such a

social portfolio could include meaningful interactions with and support from family, friends and neighbors, and group activities such as work, volunteering, church and community groups. It will be helpful to have these goals in mind when Boomers make important financial decisions about where to live, when to retire and how much retirement income they'll need.

FINANCIAL SECURITY

Using the Sightlines framework, we have focused on nine key steps toward financial security that fall into three categories: cash flow, asset growth and protection. Like healthy living and social engagement, the financial security action steps may be difficult for individuals to achieve on their own. Fortunately, employers, advisers, financial institutions and governments are well positioned to provide help and support.

Two of the most paramount decisions facing Boomers are when to transition from the workforce and how to best deploy their financial resources. While saving and investing are helpful steps, it could be very difficult, if not impossible, for Boomers ill-prepared for retirement to start saving enough money today to make up for decades of under-saving.

Keep in mind that many people experience two or three phases of retirement, possibly starting with a period of high activity and abilities, and potentially ending with a period of increased frailty and expenditures for medical and long-term care, and low activity. When envisioning retirement, people may focus more on earlier versus later phases. Yet these phases have very different implications for

Here are specific financial decisions for Boomers to focus on:

- Estimate how much retirement income they'll need to meet their expected living expenses in retirement, reflecting higher medical costs for health and long-term care, and a potentially lower cost of living if they will have paid off their mortgage or plan to downsize.
- Decide when to start receiving Social Security benefits. Research suggests an optimal strategy is often to delay the start of Social Security for as long as possible—to age 70 at the latest—for the primary wage-earner of a couple or for a single worker.⁷
- Determine how to generate reliable, lifetime retirement income from IRAs, 401(k) accounts and other retirement savings.⁸
- Decide how and when to start withdrawing from traditional pension benefits, when available.
- Find the appropriate choice for obtaining Medicare coverage (traditional vs. Medicare Advantage) and insurance to supplement Medicare.
- Develop strategies, such as purchasing insurance or holding other assets in reserve, for addressing the threat of potentially ruinous long-term care expenses.
- For home owners, consider whether home equity should be deployed to generate retirement income through reverse mortgages, or held as a reserve to tap in case it's needed to pay for long-term care.

the financial resources that are needed, as well as the lifestyle decisions that will be made.

Simply put, there are many complex choices that must be made in the five years leading up to retirement and

in the five years after retirement. It's only natural that workers may need assistance from employers, financial institutions and advisers to help them make and carry out these critical decisions.



A LIFE PLAN TO CONSIDER

Many Boomers reaching their 50s or 60s are ready to retire and leave the workforce for a variety of reasons. But a realistic assessment of their financial resources may indicate they don't have enough savings to retire comfortably. Their options are limited but powerful, and include some combination of:

- Working longer
- Delaying tapping into financial resources such as Social Security and retirement savings to allow them to grow
- Reducing living expenses in retirement
- Optimizing savings deployment to generate retirement income, such as investing savings and using a systematic withdrawal plan, buying a guaranteed lifetime annuity from an insurance company, using savings to help delay withdrawing from Social Security, or a combination of these approaches.⁸

When faced with these choices, many Boomers may become frustrated at the possibility of working at the

same job and same level of intensity for several more years. In this case, they may want to consider some aspects of the following life plan:

- Seek alternative work that is more satisfying, less intense and/or requires working fewer hours.
- Possibly work just enough to cover current living expenses and enable financial resources to grow.
- Postpone starting Social Security for the primary wage earner as long as possible but no later than age 70.
- Delay drawing down retirement savings as long as possible, even to age 70-1/2, when people must start withdrawing tax advantaged savings such as IRAs and 401(k) accounts.
- Take a hard look at living expenses, potentially downsizing and/or paying off a mortgage to reduce housing expenses.
- Decide how much income is needed to meet basic living expenses and be happy.

As the world has changed, many Boomer have been given a gift of an extra 20 to 30 years of life compared to previous generations.

These steps can be a tall order that may require a lot of work and significant life changes. Merely providing facts and strategies might motivate only a small part of the population to make these desirable changes. For many people, it may be critical to start the process by exploring strategies that influence and strengthen core motivations for change, which can give individuals the energy and willpower to implement these plans.⁹

As the world has changed, many Boomers have been given a gift of an extra 20 to 30 years of life compared to earlier generations. But this gift isn't free—hard work is needed to increase the odds of living long and living well. Nobody said it would be easy, but doing so will help people arrive at old age physically fit, socially engaged and financially secure.





ACTION STEPS

1. Prepare realistic retirement needs assessments of living expenses and expected income from Social Security, pensions (if available) and savings. This can lead to more informed decisions about how long to work and how much money is needed for a comfortable retirement that could last a few decades.
2. Explore the most effective and efficient way to deliver financial advice, if needed.
3. Take steps to improve health and nurture a diversified, robust social portfolio.
4. Explore strategies that influence and strengthen core motivations for change, to give people the energy and willpower to implement their plans.⁹

CITATIONS

1. The Baby Boom generation has generally been defined as those born between 1946 and 1964. https://en.wikipedia.org/wiki/Baby_boomers
2. "2016 Retirement Confidence Survey," *Employee Benefit Research Institute*. https://www.ebri.org/files/RCS_16.FS-4_Age.pdf
3. The Sightlines Project, *Stanford Center on Longevity* (February 2016). <http://sightlinesproject.stanford.edu>
4. Based on the 2010 Social Security Administration mortality table, with future mortality improvement projected using the Society of Actuaries' MP-2015 scale. See the Longevity Illustrator: <http://www.longevityillustrator.org>
5. Vernon, Steve, "Life Planning in the Age of Longevity: An Action Plan," Toolkit Series Brief, *Stanford Center on Longevity*, (2017).
6. Yotopoulos, Amy and Jonathan Streeter, "Social Portfolios Are Just As Important As Financial Portfolios," Toolkit Series Brief, *Stanford Center on Longevity* (October 2016).
7. Shoven, John and Sita Nataraj Slavov, Does It Pay to Delay Social Security? National Bureau of Economic Research (July 2013).
8. Vernon, Steve, "A Portfolio Approach to Retirement Income Security," Toolkit Series Brief, *Stanford Center on Longevity* (forthcoming 2017).
9. Vernon, Steve and Elizabeth Borges, The MORE Design: Integrating Psychological Science and Behavioral Economics to Engineer Better Outcomes with Human Resources, Benefits, and Retirement Programs, *Stanford Center on Longevity* (forthcoming 2017).

The mission of the Stanford Center on Longevity is to redesign long life. The Center studies the nature and development of the human life span, looking for innovative ways to use science and technology to solve the problems of people over 50 in order to improve the well-being of people of all ages.

