Bloomberg Businessweek
Available on the iPad

RETIREMENT January 25, 2011, 11:01PM EST

Retirement: Live Long and Don't Prosper

Confusion about the life expectancy of the Baby Boom generation bedevils fiscal planning and retirement planning

By Ben Steverman

As the 79-million-strong Baby Boom generation starts hitting age 65, demographers and medical researchers are increasingly at odds over how long they'll live. It's a question with major implications on a national level, for how much Social Security and Medicare will cost future generations of Americans. On a personal level, life expectancy complicates plans for saving and spending: Live too long and risk running out of money; die young and you can't take it with you.

At least one member of a 65-year-old couple can expect to live for another 23 years, to age 88, according to 2010 Social Security data. That's just an average, however, and there is a 30 percent chance of living past 92. Moreover, those numbers are based on when current retirees—the baby boomers' parents—are passing away.

Medical advances are keeping more people alive for longer than ever. The current life expectancy for an American at birth is 77.9 years—58 percent longer than in 1900, when the average life expectancy was 49 years. According to the most recent data available from the U.S. Centers for Disease Control and Prevention, from 2000 to 2007 the rate of death from heart disease, the leading cause of death, plunged 19 percent, while the rate for cancer, the second-leading cause of death, fell 5 percent. Thanks to medication that controls blood pressure and other advances, 95,000 fewer Americans died of heart disease in 2007 than in 2000, even as the population increased.

If such gains continue, as expected, they will swell the federal tab for old-age benefits. Adding 3.1 to 7.9 years to life expectancy by 2050 would add an estimated $3.2 trillion to $8.3 trillion to Medicare and Social Security outlays above current expectations, according to a 2009 study by the MacArthur Foundation Research Network on an Aging Society.

OBESITY EPIDEMIC

But wait. Deteriorating American lifestyles are taking away some of the gains from advanced medicine. The rate of obesity in the U.S. has risen 48 percent in 15 years, and by 2020, 45 percent of the population is expected to be obese, according to a 2009 study in *The New England Journal of Medicine*. The study concluded that the rise in obesity, if unchecked, could be enough to outweigh all the positive effects from falling smoking rates.

"This longevity explosion that we have been experiencing in America since 1950 may not continue at the same pace because of the obesity epidemic," says Richard Besdine, professor of medicine at Brown University and medical officer for the American Federation for Aging Research. He adds: "Americans are literally killing themselves through their mouths."

In any case, there is a good chance that even as Americans live longer lives, they will spend more years disabled, needing expensive care. That's already happening: Though deaths from heart ailments or cancer have declined, deaths from Alzheimer's disease have increased, from 49,558 in 2000 to 74,632 in 2007, according to the CDC. "The longer you live, the higher the risk" for Alzheimer's, Besdine says, noting the disease has no good treatments. "What we want to do is extend the nondisabled part of old age."

Experts say there are steps baby boomers can take to protect their portfolios from uncertainty about both the length and cost of their retirements. On the most basic level, retirees and pre-retirees could stay on top of longevity projections. A Society of Actuaries survey in 2005 found two-thirds of retirees underestimate the average life expectancy at their age, with 42 percent doing so by five years or more. The Social Security website has a life expectancy calculator and other tools for estimating government retirement benefits.

ANNUITIES' APPEAL

Still, even individuals' well-informed guesses can be wrong by a decade or more, says Anthony Webb, research economist at Boston College's Center for Retirement Research. To guard against this risk when planning for retirement, many more Americans should be buying annuities, he says. Insurance companies structure annuities in a variety of ways; one common option is an annuity that pays out a regular income stream that ends when the recipient dies. For most Americans, especially healthy people who expect long lives, it makes sense to lock in an annuity at age 65 rather than later in retirement, Webb adds.

Despite longevity risks, relatively few Americans buy annuities. A Society of Actuaries survey released Jan. 5 found just 20 percent of Americans age 45 to 70 have plans to buy an annuity or similar financial instrument. One reason may be the costs and complexities involved in annuity products. Or, Webb says, it could be the reluctance to pay for a investment product that, if they die too young, retirees might never collect on.

Also, by delaying Social Security payments until age 70—instead of 62 or 65—retirees can increase monthly payments and make the program a far more valuable income stream late in life.

One obvious way to finance a longer retirement is to save more, either by spending less or working longer. If maximum life spans extend to 100 years or even past 110, longer careers will be easier for older Americans and might even be psychologically beneficial, says Steven Austad, a professor at the University of Texas Barshop Institute for Longevity and Aging Studies in San Antonio. "The retirement age of 65 makes no sense whatsoever anymore," Austad says.

Steverman is a reporter for Bloomberg News.