

You Might Live Longer Than You Think. Your Finances Might Not.

Financial planning tends to overlook longevity, a factor that can far exceed life expectancy

By [Josh Zumbrun](#)

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Here are two numbers that people ought to know but often don't: how many more years they are likely to live and the probability of living much, much longer.

The good news is that many Americans live a lot longer than they expect. The bad news is that this often leads to financial regret as they realize, sometimes too late, they might have claimed Social Security too early, passed up the opportunity to buy annuities or long-term-care insurance, or simply undersaved for all those added years of retirement.

Demographers and actuaries make the following distinction between life expectancy and longevity: Life expectancy refers to the average number of years someone will live from a given age, whereas longevity refers to how long he or she might live if everything goes well, typically expressed as the probability of living beyond a certain age such as 85, 90 or even 100.

A growing body of evidence shows that many people are ignorant of their so-called longevity risk—the probability of living a very long time—and the complications that presents.

“A lot of people are thinking about life expectancy, but the extent to which people are asking questions about longevity is much lower,” said Abigail Hurwitz, a professor at the Hebrew University of Jerusalem who studies pensions and behavioral finance.

Or, as Olivia Mitchell, a University of Pennsylvania professor and [co-author on a pair of recent papers](#), put it: “The chance you might live a very long time in retirement and run out of money is something we haven't focused enough on at all.”

Financial advisers say that both Social Security and personal savings are necessary for a comfortable retirement, and that many people outlive the latter. Among those ages 65-69, 18% receive over 90% of their income from Social Security. [By age 80, that rises to 33%](#), according to a 2017 study.

Drs. Hurwitz and Mitchell note that retirement calculators provide information about average life expectancy, but not longevity. They have found that about five times as many Census Bureau publications relate to life expectancy as longevity. Thus, people who have planned appropriately for their life expectancy might miss how likely they are to live longer.

People can look up their longevity risk with [an online Longevity Illustrator](#) maintained by the American Academy of Actuaries and Society of Actuaries, based off the latest mortality data from the Social Security Administration.

They might be surprised, especially by the probability that one member of a couple could live a very long time, said James Poterba, a Massachusetts Institute of Technology economics professor who has long studied retirement-savings patterns.

Mr. Poterba provides the following example: “If Joe and Jane are 65, have just retired, don’t smoke, and are both in excellent health, there is a 46% chance that at least one of them will still be alive in 30 years.” (That is, one would be 95 years old.)

To be sure, there is always uncertainty about death. The Covid-19 pandemic is a reminder of that. After decades of improvement, [life expectancy dropped in 2020 and 2021](#), according to the Centers for Disease Control and Prevention. Life expectancy at birth for men has dropped to about 73 years in 2021 from 75 before the pandemic, and for women, to about 79 from 81.

Yet this isn’t the most relevant figure to track. In fact, [it is a somewhat odd calculation](#), derived by calculating how long a hypothetical infant would live if the age-specific death rates in the year 2021 prevailed throughout that infant’s life.

What matters for most people is the life expectancy and longevity risk of their specific age group going forward. (If you’re 65, the death rates of people ages 0 to 64 are no longer part of your calculation.) Of course, pandemics, other health risks and medical advances might alter these calculations, but consider where things stand now.

According to the latest data from the Social Security Administration, the oldest members of Generation X, born in 1965, will reach their full Social Security retirement age of 67 in 2032. From that point forward (long after the pandemic, at this point) healthy, nonsmoking males would have a 47% chance of living to age 90, while females would have a 57% chance, the actuaries project.

The oldest millennials, born in 1981, won’t reach 67 until 2048. By then (long after the pandemic) a healthy nonsmoking male will have a 53% chance of reaching age 90, while a female with those characteristics would have a 62% chance, according to the actuaries. The Longevity Illustrator projects these men would have a 14% chance of reaching 100 and women a 21% chance.

(Whether Social Security itself will be adequately funded to support those retirees is an entirely different, public-policy question.)

The mismatch between what ordinary people and actuaries expect emerges from the University of Michigan’s Health and Retirement Study, which has followed a representative sample of about 20,000 people since 1992. It asks respondents, “What is the percent chance that you will live to be 75 or more?” and then followed them over time to find out.

One might think people make better guesses than actuaries about their own longevity—after all, a person knows their individual health and behaviors whereas the actuary might be able to sort people only by age, gender and a few other demographic variables. But the survey results suggest that isn’t always the case.

Todd Elder of Michigan State University studied the actual outcomes of people who participated in the Health and Retirement Study, and found that people systematically [understated their chances of living](#) to 75 by 10% or more. For example, one year the 65-year-olds gave themselves a 67% chance of living 10 more years, but 78% were still around to take the survey 10 years later. Cormac O’Dea of Yale University and David Sturrock of University College London in a recent paper call this phenomenon [“survival pessimism.”](#)

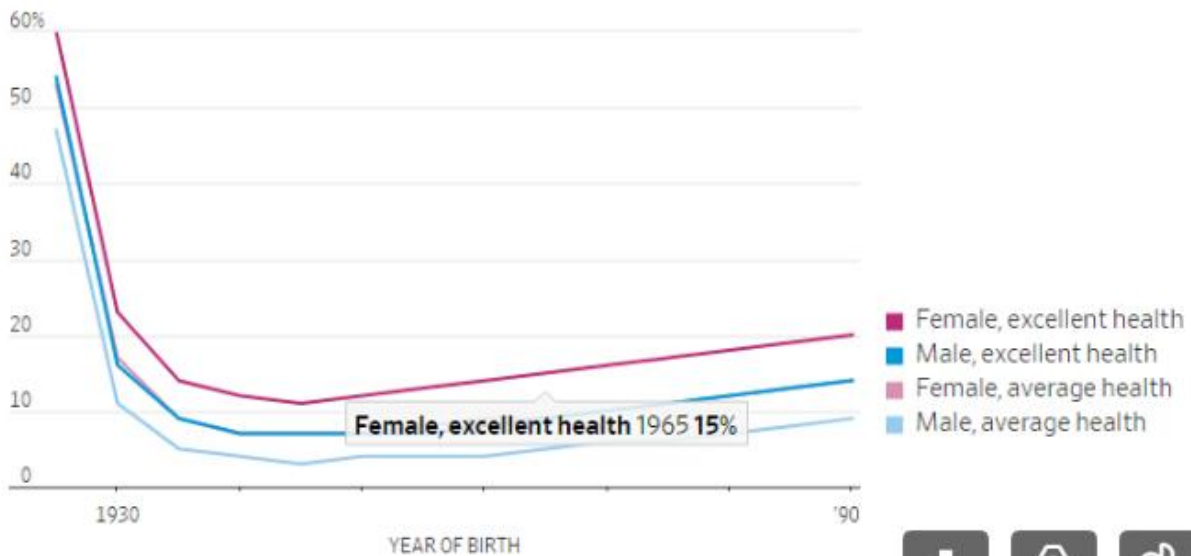
Many people find contemplating and planning for death difficult. The anthropologist Ernest Becker called this “denial of death”; others have called it the “ostrich effect.” As a result many people avoid the topic entirely.

Yet if they did take the time to objectively assess their prospects, they could well find death is much further away than they thought. This could be a source of an entirely different type of stress. But done soon enough, it doesn’t have to be. Drs. Hurwitz and Mitchell have shown that when people are objectively informed of this longevity risk, they start to plan accordingly.

Write to Josh Zumbrun at josh.zumbrun@wsj.com

<https://www.wsj.com/articles/death-finances-and-how-many-of-us-get-our-money-needs-wrong-51a660a2>

Probability of someone alive today reaching 100 years of age



Note: Data for nonsmokers shown.

Source: American Academy of Actuaries and Society of Actuaries, Actuaries Longevity Illustrator

