



Your life expectancy: Key considerations for maximizing retirement income

Retirement planning would be so much simpler if we knew how long we were going to live and what expenses we would face over that time. Sadly, there is no crystal ball.

Absent the power to predict the future, your best option is to learn about your life expectancy, which tells you on average how much longer you may expect to live and is usually expressed in years and months. By using tools such as this life expectancy calculator or life expectancies tables, you can make the best decisions about important financial choices such as annuities, which offer a tax-deferred way to save for retirement and guarantee income payments during retirement as long as you live.

The net result of learning about your life expectancy and making informed decisions about annuities -- including choosing the best annuity type for your needs and annuity payout options -- can potentially be thousands more dollars in retirement income for you.

The danger of underestimating your life expectancy

Recent studies, such as [this one](#) published in 2013 by Michigan State University economics professor Todd Elder, show that a significant number of Americans underestimate how long they are going to live. He analyzed a U.S. government survey done in 1992 that asked Americans who at the time were ages 58 to 61 what percentage chance they had to living to age 75. He compared their predictions to actual mortality data for those same individuals since enough time had passed to find out if those people had guessed their life expectancies correctly.

Among the findings: For the group that believed they had zero chance of living to age 75, 49.2% actually did! And 59.9% of those who thought they had a 10% chance of reaching 75 lived that long. That's half or more people in those groups who guessed their life expectancies wrong.

And these were people close to retirement age who presumably knew a lot about their health and family longevity trends.

That illustrates how easy it is to underestimate how long you will live, especially today since Americans are living longer than ever before. In addition, there will always be lucky people who defy the life-expectancy odds and live even longer than statistics would suggest, so you need to plan for that possibility too.

How annuities can help with the life expectancy conundrum

In the face of this, Americans looking toward retirement are realizing a need for financial tools that protect them from outliving their money because the risk is real, and annuities are becoming increasingly popular because they provide this protection.

In the “good old days,” most people could count on company pensions to provide them income after they stopped working. But the U.S. system has shifted away from those plans towards 401(k)s and individual retirement accounts that put a greater burden on workers to save for retirement and make sure those savings produce enough income to cover their needs when they are no longer working. This is even more important because Social Security, which many people have viewed as the foundation of their retirement planning and a safety net, is often not enough.

Many experts say that annuities are a good solution to protect against the risks of outliving your assets. A [2014 study by the Brookings Institution](#) found strong arguments in favor of longevity annuities – a deferred fixed annuity -- as an answer to the challenges posed by life expectancy uncertainty, the move away from pensions and other trends. “We are optimistic that longevity annuities can significantly increase expected lifetime well-being for middle- and upper-income retirees who have substantial financial assets at the time of retirement,” the authors wrote.

Other types of annuities such as an immediate income annuity, multi-year guaranteed annuity and index annuity can also help you cover your needs through your life expectancy and beyond.

When analyzing if an annuity is right for you, a good exercise is to compare the monthly annuity payment with what you could make by investing your money in an equally low risk portfolio. An assumption about your life expectancy is crucial to this analysis since the longer you live, the better deal an annuity becomes.

How your life expectancy determines annuity costs, benefits

In addition to the life expectancy calculator on this site, you will find an instant online tool that offers free quotes and compares thousands annuities, rates and insurers. As you’ll discover, the income and other benefits you can receive are determined in part by life expectancies.

You’ll find more explanation of these concepts in our buying guides, but for quick reference the typical way that life expectancy and annuity terms interact are:

- Single life annuities usually offer the highest monthly payouts, because the insurer's risk is limited to your life expectancy.
- Single life with term-certain payout offers you a little less income, because the insurer faces the obligation to continue paying your beneficiaries for a set number of years.
- 50% joint and survivor benefits means your payment amount decline a bit more because payments continue to your surviving spouse for his or her lifetime at half the original amount.
- 100% joint and survivor entails an even lower monthly payment but ensures your spouse gets the full annuity amount for his or her lifetime.

Another way in which life expectancy enters into the annuity equation is deciding how soon you should start taking income payments. With a deferred annuity, the longer you defer those payouts, the bigger they will be. This is because the insurer reduces the likely period of time it will have to keep making payments to you.

As we have demonstrated, your life expectancy has major financial implications. To figure out YOUR plan to protect against the uncertainties, start with our life expectancy calculator, then consult our buying guides to learn more about the different types of annuities. Our instant rate calculator will help you compare annuities side by side so you can identify the best annuity for your needs and situation. However many years you have left to live, make them as comfortable and carefree as possible by figuring out your retirement income needs today!