Longevity and Retirement

Standard 6

The student will explain and evaluate the importance of planning for retirement.

Lesson Objectives

- Examine the investment needs of different individuals and make recommendations for their retirement strategies.
- Evaluate longevity and life-span statistics to predict the numbers of years they will live in retirement and expected income needs.

Personal Financial Literacy Vocabulary

Life expectancy: A statistical measure of the average length of life from birth to death.

Lifestyle: The way people choose to live their lives, based on values they have chosen.

Introduction

"Keisha, are you ready for the party?"

"Just a minute, Annie. I am still looking for my card. It took a long time to find a 90th birthday card for my great grandmother, and I can't leave until I find it."

"Wow. Do you think we will live that long? I mean, 90?"

"Well, I do not know for sure. My great-grandpa died before I was even born. But Granny has lived by herself since then and has done just fine and has a lot of fun with her friends."

Do you think Keisha and Annie will live until they are 90? What about you? What is your potential life expectancy? Will you be financially prepared to live alone and support yourself all those years?

REMINDER

When planning your retirement overestimate how much money you will need to retire rather than underestimate. You cannot count on winning the lottery to get you to early retirement.

Lesson

The idea of planning for retirement is a fairly recent phenomenon. Due to advancements in medicine and other health-related factors, people now live much longer than in previous generations. Today, life expectancy is the United States exceeds 78 years, with many people living into their 90s. Oftentimes, the older people are living in their own homes or in a retirement facility rather than living with family members. That means they need the financial resources to pay for many more years past the traditional retirement age of 65. The amount of money needed for retirement is directly related to the number of years a person lives. As life expectancy continues to increase, so does the need to plan for financial independence in those years.

If you watch television very often, you have probably noticed the advertisements targeting older people. Some of those ads focus on medication and health aids, and others show older people living very active lives. For most of us, we would really prefer being healthy and active, with plenty of money to play golf, travel, and do what we want.

In addition, you may have noticed older people working at fast food restaurants or the local discount store. Some of them work because they enjoy being around people, but others are working because they need money to pay their bills.

Determining the Need

According to a survey published recently by the Employee Benefit Research Institute, about half of the people who are retired had planned to work longer than they did. As an employee, you may not always have control over when you retire or when you stop working. Therefore, you need a plan in place – just in case something happens to your plans.

If you wait until your 30s to start investing for retirement, you have about 30 years before you retire. Then you can probably plan to live another 30 years in retirement. Using that benchmark, you will spend one third of your life retired and living off your investment earnings and Social Security. In other words, you would be living on your savings for the same amount of time you spent saving for retirement!

Part of the process of saving and investing for your retirement is determining how much money you will need and how many years you will need it. Generally, you will need somewhat less than the income you need while working because most retirees have fewer expenses than people who are working – especially younger workers who still have children at home. However, the amount you need really depends on your plans for retirement.

Next, you will need to determine how many years you expect to live in retirement. It is always better to think longer rather than shorter to ensure you have enough money. According to the U.S. Department of Health and Human Services, people who live to be age 65 will live an average of 19 more years. Most financial advisors encourage you to plan on living into your 90s, just to be safe.

Retirement Income Shortfalls

Life expectancy is a statistical measure of the average life span of a specified population; it is used to help people estimate how long they will actually live. Having some idea about your life expectancy will help you determine how much you need to save for your retirement to enable you to maintain your quality of life. Depending upon your expectations for retirement, the choices you make could have a significant impact on your lifestyle. Following are three steps to consider to increase your retirement savings:

1. Rethink goals**.** If your goal is taking a European vacation every year, you may need to adjust those plans and visit a local lake instead.
2. Postpone retirement**.** You can work more years and accumulate more money in your retirement account or take a different job to supplement your retirement income.
3. Increase contributions to your retirement account**.** Putting more money aside now increases the possibility of having more money later.

Conclusion

Preparing for retirement is like many other choices you have. You must decide what is best for you and then determine how to make it possible. Your goals for later in life are as important as your short-term goals, even though the idea of retirement seems crazy when you are still so young. The biggest mistake most people make is failing to plan early enough and being caught short on funds in their retirement account. While many older adults enjoy working to stay active and involved, that is very different from working because they cannot afford to retire. If you start investing for your retirement early in your career, you can look forward to life in retirement instead of worrying about how to pay for it.

FINAL NOTE: As a teen in today's world, you have a good chance of living well into your 90s, like Keisha's great- grandmother. Your family history plays a big role in your longevity. Current studies show that heredity accounts for about one-fourth of the factors affecting your life expectancy. Seventy-five percent (or three-fourths) of age factors are based on your personal lifestyle choices. Being able to live financially independent for those post-retirement years will depend on your investment choices.

This lesson was written and created by Oklahoma educators in partnership with

Oklahoma Council on Economic Education

Name:______________________________Class Period: ______________________________

Longevity and Retirement Review 6.2

Answer the following questions and give the completed lesson to your teacher to review.

1. Which of the following is a true statement?
   a. Life expectancy is based on how much money a person earns.
   b. Most people who retire live in nursing homes.
   c. Life expectancy today is continuing to increase.
   d. Older people rarely work after they retire.

2. If someone is not saving enough money for retirement, which of the following actions should they consider?
   a. All of the below are correct.
   b. Postpone retirement to a later date.
   c. Rethink retirement goals.
   d. Save a larger amount of money each year.

3. Which of the following events could reduce your retirement income?
   a. You inherit money you had not anticipated.
   b. You start investing for retirement while you are young.
   c. You wait until later in life to start investing for retirement.
   d. You decide to work after you retire.

4. If you retire when you are in your middle 60s, then
   a. You are likely to live about one-third of your life in retirement.
   b. You are likely to live about ten more years in retirement.
   c. You are likely to live in poverty because you will have no income.
   d. You will need to start saving for retirement in your 50s.

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Analyzing Your Retirement Needs Activity 6.2

The following table shows the life expectancy for males and females in the United States born in the years 1992 to 2016. Use this data to complete the questions on this activity sheet.

Year Born	Male	Female
2016	83.7	87.3
2015	83.6	87.3
2014	83.6	87.3
2013	83.5	87.2
2012	83.5	87.1
2011	83.4	87.1
2010	83.3	87.0
2009	83.2	86.9
2008	83.1	86.9
2007	83.0	86.8
2006	83.0	86.8
2005	82.9	86.7
2004	82.8	86.7
2003	82.8	86.6
2002	82.7	86.7
2001	82.7	86.5
2000	82.6	86.4
1999	82.5	86.4
1998	82.5	86.3
1997	82.4	86.3
1996	82.4	86.2
1995	82.4	86.2
1994	82.4	86.2
1993	82.3	86.1
1992	82.3	86.1

Source: Social Security Administration, Estimates from the 2016 Trustees Report

1. According to the table, what is the average life expectancy of someone your age and gender?

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2. You probably noticed that males do not have the same life expectancy as females. Why do you think women tend to live longer than men?

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3. You may also notice that people born in 2004 have a longer life expectancy than those individuals born in 1980. Do you believe these trends will hold in the future? Why or why not?

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____

____

4. Assume you will retire at age 65. How many years does the table say you will live in retirement? ___

5. Do you have any family members older than this age? YES NO

6. Do you think you might live longer than this chart indicates? YES NO

7. Reasonably, how many years do you expect to live in retirement? ________________

8. Assume that you need $50,000 a year during retirement. To calculate a rough estimate of your financial needs during retirement, multiply $50,000 x your life expectancy. What number do you get?

____

9. The number in answer eight is incorrect for several reasons. Different things can and will happen with you and with your money between now and the time you start relying on it for income. Those variables will increase or decrease your financial needs after your retire. The statements listed below are examples of what may or may not happen to you.

   For each of the following events, determine whether or not the event would cause your account value to increase or decrease. Circle your answer for each situation.

A. You earn a return of 8% a year on your account balance.

Increase Decrease

B. Instead of earning the 8% you anticipated, you earn 6%.

Increase Decrease

C. You forget to include inflation, which is 3% each year.

Increase Decrease

D. You inherit money that you can add to your account.

Increase Decrease

E. You need the money to pay for expenses in your 20s and decide not to fund your retirement account until you turn 40.

Increase Decrease

F. You have part of your check automatically deposited into a retirement account.

Increase Decrease