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Will Your Money Live as Long as You Do?

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One of the major concerns in financial planning is figuring out how to ensure a family's retirement savings will provide their desired lifestyle income for several years. Strong consideration must be given to not running out of money too early, while not excessively crimping one's ability to enjoy the fruits of labor.

The issue of longevity is increasingly a worry as we live longer. Just a generation ago, "70" was old for many. Now many of us at that age are active and spending plenty of money. It is common to see many individuals in their nineties with sound mind and an active lifestyle. If you retire in your sixties, how do you keep from running out of money for up to forty years?

For most physicians, it involves control of distributions from retirement savings. There are a legion of studies that suggest "withdrawal" rates from a balanced portfolio that establish (based on history) highly probable strategies. Most studies suggest a 90 percent plus of a portfolio lasting at least 30 years with a four percent per year distribution (inflation adjusted) as one example. The smaller the percentage of your savings that you spend, the more likely you are to have money left over at death.

Another strategy is to shift the longevity risk to an insurance company. This can be done with an immediate annuity, in which you trade a lump sum for a lifetime (or joint lifetime) of income. Deferred annuities with guaranteed lifetime withdrawal riders can also provide a lifetime of income. However, both strategies depend on many factors such as inflation and the solvency of the insurance company and this rather complex topic should be carefully studied.

A new method to deal with providing for income for life specifically addresses the risk of living longer than expected. The Qualifying Longevity Annuity Contracts (QLAC) are like immediate annuities that don't pay until later in life. You may pick a period of up to 15 years of deferral or up to age 85. You can give an insurer with a QLAC a lump sum at say age 65 and specify that you will begin drawing an income for life beginning at age 80.

Allowing the funds to grow in a tax deferred manner during the period between 65 and 80 allows eventual distributions that can be a high multiple of what you would draw with a traditional immediate annuity at age 65. Having a QLAC in place (and you can contribute the lesser of 25 percent of your IRA or $125,000) allows you to plan for expenses only until you reach 80 years of age, after which the QLAC kicks in. Issues such as inflation and how

much would go to heirs if you don't live very long must be considered and discussed with your advisors.

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