The Social Security Maven®
Peter M. Weinbaum, JD
Your trusted source for Social Security advice
www.socialsecuritymaven.com

Social Security, Retirement Planning, and Life Expectancy

I view Social Security as a form of **longevity insurance**, and I believe that many couples are well-advised to prepare for the possibility that at least one of the spouses might live to a ripe old age. Until very recently, my default assumed life expectancies for illustration purposes were 85 (husband) and 90 (wife), unless the client wanted me to use different assumptions. That was based on my general understanding that life expectancy is about 78-80 for men, and around 82-83 for women, to which I added some cushion. But in February 2014 I was playing around with a life expectancy calculator that changed my thinking.

When I analyze a couple's Social Security options, I generally focus on strategies that optimize benefits based on the clients' stated priorities. And while early benefits are important to some couples, the vast majority of my clients are particularly concerned with maximizing one or more of the following priorities:

- **Cumulative benefits** to assumed life expectancy
- **Survivor benefits** for the spouse with the lower monthly benefit
- **Combined monthly benefits** at older ages

Cumulative benefits to assumed life expectancy are dependent on two factors: each spouse's monthly benefits and the number of months they are assumed to live to collect those benefits. The difference between a "bad" strategy and a "good" strategy is magnified to the extent that even one spouse lives for a very long time. It really doesn't matter from an illustration standpoint which spouse lives longer, because the survivor will either continue receiving their own retirement benefits or survivor benefits based on the Social Security earnings record of their deceased spouse.

The importance of survivor benefits is amplified when the spouse with the lower benefits – typically the female spouse, who is often younger as well – outlives the other by many years.

The **life expectancy calculator** that led me to change my illustration assumptions may be found on the website of the Society of Actuaries.
http://www.soa.org/research/software-tools/research-simple-life-calculator.aspx I use the Annuity-2000 tables with no mortality improvement assumed.

128 Bliss Road, Montpelier, VT 05602
peter@socialsecuritymaven.com
802-229-0940 802-272-8823

The calculator does not take into account the actual health status of either spouse, but in the case of an "average" couple, where each spouse is currently **age 66**, there is a **50/50 chance that at least one of them will live to age 92 and a 40% chance that one will live to age 94**. From a longevity risk management standpoint, it seems prudent to consider the possibility of at least one spouse living well into his or her 90's when making Social Security claiming decisions. The calculator may be used in connection with same gender couples as well. The following table illustrates life expectancy probabilities for two spouses at **age 65**:

Probability of One Spouse Living Until Specified Age
(Current Age 65/65)

Age	Male/Female	Male/Male	Female/Female
85	84%	78%	88%
90	63%	56%	69%
95	36%	30%	41%

The implications of the above for the financial advisor are fairly obvious:

1. While it still makes sense to manage the risk of early death using life insurance, the same contract, generously funded and equipped with an "overloan protection rider," may also be used to protect against longevity risk.

2. Life insurance and annuity contracts with **guaranteed lifetime income** features may be just as important as optimal Social Security claiming in protecting clients against the risk of outliving their assets.

The value of Social Security benefits should not be underestimated in an overall retirement income planning strategy. A couple's benefits are somewhat analogous to a guaranteed joint and survivor annuity with some built-in inflation protection.

Considering the substantial possibility that at least one spouse may live well into his or her 90's, I have now raised my default life expectancy assumptions to 90 (husband) and 95 (wife) for purposes of benefit analysis. This should provide clients with a more realistic framework for making Social Security claiming decisions.