

THE SHINE REPORT

DEDICATED TO HELPING OUR CLIENTS MAKE GOOD FINANCIAL DECISIONS

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SPECIAL REPORT

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LIFE EXPECTANCY IS GETTING OLDER

Having a realistic expectation of your life expectancy is essential for any financial planning, life insurance and investing decisions you are going to make.

The odds are you are going to live longer than you think. The new 2000 CSO Mortality table provides a good rule of thumb that people on average are living 3-5 years longer than their oldest parent (or grandparent). This has enormous implications for all aspects of your life, the income you will need, how you invest, the type of life insurance you own, your family estate planning and the lifestyle you envision. **Living longer than you expect raises a real risk of outliving your retirement assets and your life insurance.**

When you start taking Social Security has a major impact on your future financial well being. Because people have a pessimistic view of their life expectancy, they are opting to take Social Security at 62 rather than wait until they reach full retirement age or later. In this case, later is better. Benefits taken at 62 will be about 20% - 23% less per month than if you wait until "full retirement" age, which isn't 65 any more if you were born after 1937. This means you will receive less total income from Social Security if you live past your "break even" age.

The "break even" point of Social Security is the age when the higher monthly income you will receive by waiting until full retirement equals more than the money you did not receive by starting at 62. The "break even" point is in the mid 70s if you spend the checks, early 80s if you had instead invested each check at 4%. Every day you live beyond the "break even" point, you receive more income than you would have by starting early. As you will see now, you have better than a 50% chance of living past your "break even" point.

Another area tremendously affected by life expectancy is life insurance. Owners of life insurance under fund the premiums required to make the policy work as illustrated **The illustration shown at the time of sale gives an impression of predictability of future performance that is just not real. The illustration assumes a constant interest rate (the rate at that**

time) and a constant cost of insurance until age 95 or 100. Due to changing crediting rates, market performance, increasing mortality costs and other factors, **the policy "under performs" the illustration's assumed performance.** This could mean the policy will require additional funding to keep the policy from lapsing if they live to long. Because owners of life insurance do not have their policies evaluated on a regular basis, they are not aware of the financial problem. Suddenly they get a notice of additional premiums required from the insurance company. If they don't add the additional dollars all will be lost. The policy will lapse. Money that was to fund a vacation or buy medicine now has to go to pay for life insurance. **Vanishing premiums never vanish, only the policies do.**

The other side of the issue is when the policy "endows". A policy that "endows" means the policy contract is completed/paid up. The insurance company sends the owner the cash surrender value of the contract and the owner no longer has a death benefit on the insured's life. Most older life insurance policies were designed to endow at age 90 or 95. Newer life insurance policies can "endow" at age 100 and some can be extended beyond age 100.

Why is this important? Suppose a couple age 65 purchased a \$1,000,000 joint survivorship life insurance policy to cover future estate tax liability. The policy is funded to endow at age 95 with \$100,000 of cash value. Assume they did in fact correctly fund the policy so it worked as illustrated. If one of them lives beyond age 95, the \$1,000,000 death benefit will not be available to pay the estate tax liability. At age 95 the living spouse would receive \$100,000 from the insurance company and pay the income taxes due, and the contract would be finished.

A few years back there was a big marketing program to sell life insurance based on minimum funding to "life expectancy." One of the major problems with this program was the funding was based on the old 1985 CSO Mortality tables. Life expectancy has increased since then and those policies are going to require a lot more premium than was illustrated to reach endowment. **You should have your**

life insurance policy evaluated every time there is a change in crediting rate to the policy, or at a minimum every three years, in order not to be caught with a policy you can no longer afford, but still want and need.

We are living longer. Look at the numbers based on the new 2000 CSO Mortality tables. Life expectancy is a weighted average. If you look up the definition of life expectancy, you will find something like: “the average expected length of life; the number of years that an average person of a given age can expect to live”. Without going into the mathematical details, on average 50% of people live to life expectancy or beyond, and the other half die before that age.

A female aged 40 today has a life expectancy of 41 years. But according to the 2000 CSO Mortality table, more than 50% will live past the age of 81.

As a person gets older, life expectancy increases. For 50% of the females still alive at age 81, their life expectancy is 8 ½ more years, or age 89 ½. And at age 89 ½ there is still 25% of our original group of 40 year old females alive. More than 10 % of that group will live beyond 95.

The EBRI (Employment Benefit Research Institute) published the following:

A male 65 has a 50% chance of living to age 85 and a 25% chance of living to age 92.

A female 65 has a 50% chance of living to age 88 and a 25% chance of living to 94.

A married couple, both 65, have a 50% chance of one of them living to 92 and a 25% chance one will live to 97.

The following table illustrates the 80/20 rule. 20% or more of each group will be alive at the following ages.

| MALE | | |
|-------------|-----------------|------------------------------|
| Current Age | Life Expectancy | Age When 20% Are Still Alive |
| 30 | 76 | 87.5 |
| 40 | 77 | 88 |
| 50 | 78 | 88.5 |
| 60 | 89 | 89 |

| FEMALE | | |
|---------------|-----------------|-------------------------------|
| Current Age | Life Expectancy | Age When 20% Are Still Alive. |
| 30 | 80 | 91.5 |
| 40 | 81 | 92 |
| 50 | 82 | 92 |
| 60 | 83 | 92.5 |

If you want a specific life expectancy calculation, or the 80/20 rule for a specific age, contact me at 954-428-4007.

A recent study of life expectancy based on net worth said that if you are 65 today and are in the upper 50% of the nation’s population based on net worth, then you can add another 5-6 years to your life expectancy.

The reality of living longer requires constant monitoring of all investments and life insurance on a regular basis in order not to be forced into having to choose between lost of family wealth and lifestyle. Taking prudent action when required should prevent the need to make that type of choice.

The value of having a life insurance policy reviewed and evaluated on a regular basis is meeting life insurance needs and concerns in the most cost efficient manner.

The goal of a life insurance review is to provide the owner or trustee with information needed to understand the present situation of the policy and alternatives to solve the problems the policy may have in the best manner for the owner’s personal situation.

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The information contained in this report is of a general nature only. Besides being generic in approach, the opinions and ideas are solely those of the editors. Please phone or write to discuss how they can be applied to your personal situation. Your attorney or accountant should always be consulted regarding legal or accounting matters.

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