“Why do I need my savings to last to age 100 if my average life span is much shorter? —MIKE JOHNSON, *Fairfield, Ohio*

By Walter Updegrave

IN HIS BOOK *The Flaw of Averages: Why We Underestimate Risk in the Face of Uncertainty,* Stanford management-science professor Sam Savage illustrates the folly of planning on the basis of averages by recounting the tale of the statistician who drowns crossing a river with an average depth of three feet. The rub, of course, is that while the stream is shallow near the shore, it's 12 feet deep in the middle.

The idea of using your average life span for estimating how long your savings will have to last in retirement is similarly all wet—and could leave you in the unpleasant position of having no savings left but a whole lotta living to go.

Life expectancy isn't an estimate of how long you are likely to stay alive. It represents the average number of years a person of a given age is expected to live. These days the life expectancy of a healthy 65-year-old man is another 20 or so years, while for a woman of the same age, it's an additional 22 years.

Many people are going to live longer, however—in some cases far longer. Indeed, as the chart on page 36 shows, a 65-year-old man has about a 30% probability of making it to age 90; a 65-year-old woman has a 40% chance. And the chance that at least one member of a 65-year-old couple will still be alive at 90 is even higher—60%.

THE DANGER IN AVERAGES

When you arrange your finances based on how long someone your age is projected to live, you may be doing little more than giving yourself a false sense of security.

Let's say you're 65, have $500,000 saved, and want to pull out enough each year to live comfortably, but not so much that you'll spend your dough too soon. If you assume your assets will have to support you for only 20 years, you could withdraw 5% of your savings initially and then increase that amount for inflation each year. With that regimen, you'd have about a 10% chance of depleting your 500 grand before age 85, according to T. Rowe Price's Retirement Income Calculator.

If you live longer, though, the probability of your money running out rises. At the same withdrawal rate, that chance jumps to more than 30% if you live to 90, and almost 50% at age 95.

WHAT'S YOUR FINAL NUMBER?

So if life expectancy isn't the right figure for retirement-planning purposes, what is?

There's no single correct figure. In its Retirement Income Planner tool, Fidelity sets a default age of 92 for a 65-year-old man and 94 for a woman. T. Rowe Price's calculator uses 95 for all. When Boston University economist Laurence Kotlikoff designed his

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Illustration by **JÖRN KASPUHL**

ESPlanner retirement software, he set the target age at 100. "You have to plan for the possibility of reaching the maximum age because you might make it," he says. (All three calculators let you set a higher or lower age.)

In reality, the vast majority of us won't hit the century mark, or even our nineties. So how do you balance the risk of assuming too short a life span and spending down your assets too soon, vs. erring on the side of longevity and living more frugally than need be?

Coming to an acceptable tradeoff between those two possibilities is a personal decision. My take is that the prospect of having to scrimp in your final years—or, worse yet, depend on the kindness of others—is more unsettling than the possibility of dying with unspent assets.

Unless you have serious health problems or a family history of dying young, plan on living into your early or mid-nineties. If your ancestors are long-lived, you may want to aim for 100. And couples may want to plan for a husband dying first since women have longer life spans on average.

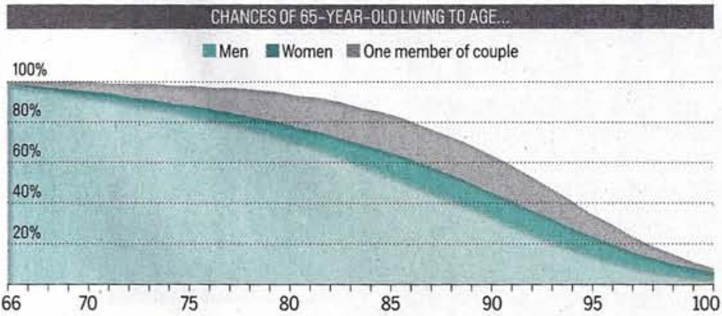
Ultimately, you have no way of knowing when you'll depart this earth. Even online tools that fine-tune your life expectancy based on your health, behavior, and family history—such as the one offered by Northwestern Mutual (Google "Longevity Game")—produce an average for someone like you.

Given that uncertainty, I think it pays to hedge your longevity bets another way once you retire: Devote a portion of your savings to an immediate annuity, which pays guaranteed income no matter how long you live.

What you don't want to do is plan as if your savings need to last only for an average life span. Do so, and you could find yourself in deep water later.

The Long Term Really Is Long-Term

When you head into retirement at age 65, your life expectancy is 85 if you're a man, 87 if you're a woman. But you could easily live longer.



NOTE: Percentages for 65-year-old couple assume at least one is alive at the later age.
SOURCE: Ron Gebhardtsbauer, faculty-in-charge, actuarial science program, Smeal College of Business, Penn State University

*Read the full answer at cnnmoney.com/expert.