

Health and Retirement study indicates people wildly underestimate how long they will live

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Credit: Peter Griffin/public domain

(Phys.org) —The University of Michigan conducted a poll back in 1992, asking 26,000 men and women over the age of 50 and living in the U.S. what they thought about their chances of living to age 75, was it 10 percent, 50, 100? It was all part of a Health and Retirement survey conducted to shed some light on what people were doing about saving for retirement in light of news that social security might not be the safety

net many people have been hoping for. Now, 22 years later, researchers with the Brookings Institute have revisited the answers given by respondents and compared those numbers to how long those people actually did live—to see how well the people back then were able to guess how long they would live. As it turns out, most were wildly pessimistic.

In looking at the data, the researchers found that the most pessimistic of them all, those who believed they had zero chance of living to 75, were wrong in almost half the cases. On the other end of the extreme, those who were absolutely certain they would live to 75, were good predictors, a little over 78 percent of them were right. The rest fell somewhere in-between.

Such numbers are important because people are living longer and the population has shifted to the point where there is not enough [young people](#) paying into the [social security](#) pot to pay for all the retirees at the other end. Thus, people are having to save money on their own, and some, such as the folks at the Brookings Institute are afraid that if people are pessimistic about how long they'll live, they won't save enough should they outlive their expectations. But, they also offer a possible solution.

Their idea is convince people to buy a longevity annuity—it's a type of investment that pays a certain amount back over a certain number of years, which, as it turns out, is very similar to how social security works—only in this case, it's all private and is based entirely on how much an investor puts in initially. They point out how quickly an investment can grow and how important it is that people take their retirement more seriously. Of course for that to happen, some means will have to be found for convincing people that their chances for living into their old age, is a lot higher than they think.

More information: Better Financial Security in Retirement? Realizing the Promise of Longevity Annuities, www.brookings.edu/research/papers/longevity-annuities-abraham-harris

Abstract

The shift in the U.S. retirement system away from company pensions and towards individual retirement accounts has placed greater responsibility on workers for ensuring the adequacy of their saving and managing those savings. Absent ready availability of or familiarity with suitable financial instruments, retirees increasingly are self-insuring against a variety of retirement risks, especially the risk of outliving their assets. One alternative to self-insuring against extended longevity is an insurance product known as a "longevity annuity." The essence of a longevity annuity is a fixed stream of payments that begins with a substantial delay from the time the contract is purchased—a longevity annuity purchased at age 60 or 65, for example, might begin payments at age 75, 80 or 85. The current market for longevity annuities faces many barriers, ranging from consumer decision making that does not account adequately for longevity risk to the fiduciary concerns of employers to incomplete markets for the hedging of risk by insurance companies. In this paper, we highlight how recent trends have precipitated a need for products that offer protection against longevity risk, consider whether longevity annuities can improve retirement security, highlight barriers to more widespread take-up of longevity annuities, and offer a menu of potential reforms to bolster this fledgling market.

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