The Optimal Retirement Age:
A Function of Longevity and Emotional Readiness

“How long do you plan on being retired? It will really help in our calculations.”

Joking aside, this question raises a key aspect of any retirement plan: **How long will you live?** For most, this is an uncomfortable topic; who wants to think about their own mortality, after all. But according to the IRS,¹ a 65 year old in 2014 can plan on living until age 86 on average. Keep in mind what “average” means; half will die before, and half after, this date. For planning purposes, we need to be more conservative.

In my experience, most retirement planning tools defer to the top decile age. In other words, they use the statistical date that 90% of your peers should be deceased. Normally, this will be your early 90s.

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¹ Calculation is based on Table I from IRS Publication 590 (2010), and is one of three tables used to determine Required Minimum Distributions from qualified retirement plans.
Think you won’t live that long? Think again. According to Census Bureau data, the number of centenarians has increased by 66 percent in the last 30 years, projecting 400,000 Americans will be over 100 by 2050.²

As with many aspects of retirement planning, determining the proper age is more art than science. Here are some thoughts on shaping your “Retired To” age.

**FAMILY HISTORY**

My first question for clients is, “How long did your parents live?” How about their parents? What does your family history say about longevity? For some, dying at an early age seems a sad, but sobering inheritance. Others find relatives whom lived into their late 90s or later (my eldest client lived to be 104, and her mind was sharp as a tack until near the end!).

What did they die of? Is their commonality in what took your mother’s and grandmother’s lives? Does heart disease or cancer seem a reoccurring instance? Is your father and his father prone to diabetes? Answering these questions will help “adjust” that projected live-to age.

**PERSONAL HEALTH**

Thinking about your mortality can be uncomfortable, and confronting our present physical condition is a topic most would choose to skip altogether. While the blessed few sport perfect health and fitness, the rest of us have issues we’d prefer not addressing; ignorance is bliss, after all. I’m not just referring to weight (certainly, I will not cast the first stone on THIS topic), but as we grow older, the battle for staying in shape and avoiding health concerns grows harder with each passing year.

From a planning aspect, our focus should be on how health impacts longevity (i.e. how long will you live). If family history points to a genetic concern, and you’re already seeing the danger signs, it is a relevant factor. However, if family history

² Source: www.dailyfinance.com/2013/08/09/retirement-savings-planning-live-to-120-years-old/
points to heart disease, for example, but regular screening reveals no problems, it may be overly conservative assuming this will shorten your life expectancy.

WHEN IN DOUBT

As the old adage says, “When in doubt, error on the side of caution.” If nothing definitive comes from your family history and personal health, using a later age is the conservative approach. As mentioned above, the fastest growing segment of our population is those over age 100, after all. Ultimately, it is personal preference. If you are comfortable with risk, and understand that stepping out of the house each day brings no absolute guarantee of safety, then set your “Retire To” age at what feels appropriate to you. For those more risk averse, using that top decile number (or later) may provide needed comfort in not feeling you’ll outlive your resources.

Ultimately, it’s a question of stretching retirement resources. What percent of your living expenses will come from savings versus guaranteed sources (Social Security, Pension income, etc.)? For those leaning heavy on savings, this is a more significant topic. I recommend running several scenarios based on different ages. As the years go by, take stock of your present circumstances, adjusting your path accordingly.

Longevity factors into the “math” of retirement income planning, but the reality of actually retiring is an emotionally charged decision. It goes beyond the scope of “can I retire.”

SO, WHEN SHOULD I RETIRE?

When asked this question (and it’s asked more times than not), my gut response is, “Well, when do you want to retire?” On the surface, it seems a personal choice. After all, as a tour director on the great expedition of a client’s retirement, my job is explaining the best way to get there, not when you should depart. However, underlying this question are some profound issues that need unpacking.
Are you ready to retire?

Not just financially (if your finances aren’t in order, it’s an irrelevant question). I mean, are you emotionally ready for retirement? In my experience, too few couples begin this discussion before they are ready to embark on the journey. It’s like discussing Christmas in July; it’s a nice thought, and you can envision it a little, but the season doesn’t seem right. Perhaps work is still fulfilling, or your plans for retirement are…what? You haven’t worked that out yet.

How do you see yourself in retirement?

Have you thought about this at all? Have you thought about what you would like to do? Are there trips to be taken, or charity work to be done? Is your goal to spend more time watching your grandchildren and their activities?

Many people fear having nothing to do. My experience, however, finds most of my clients wondering how they had time to work prior to retirement! Life hates a vacuum; something will fill this void. The question is whether you have a say in that “something”.

I believe the key to a happy life is maintaining balance. Focusing exclusively on just work, without exercise, without family time, without hobbies, eventually leads to higher stress levels, health issues, and eventually burnout. Retirement will be a brick wall mentally and emotionally, if these other aspects of life aren’t cultivated.

If you’re a “nose to the grindstone” person, preparation for retirement needs to include easing away, making time for non-work activities. Take a regular walk with your spouse, connect with old friends, dust off those golf clubs, etc. Get involved with church or charity. Easing off the grindstone will smooth the transition into retirement. Your mind will begin adapting to this new life.

The funny thing, I can usually tell. When a client walks into my office, I know when they are ready for retirement. Something in their demeanor. Those not ready,
discuss retirement as if it’s some whimsical Neverland. My questions are answered with the same academic zeal of a high-schooler during mid-term exams.

I know when the switch has flipped.

They walk into my office, a knowing smile on their face which says, “I get it now! I’ve seen that Neverland, it’s real, and I want to live there!!” I feel more a vacation planner during these meetings. Questions and answers have an energy lacking in previous discussions. Planning that trip to Italy, becomes more important than how the stock market did last quarter. More time is spent talking about Johnny’s hockey game last week, than what changes were made to asset allocation this month.

When the question becomes, “How do I make this happen?” you’ve answered the “when”.

In summary, while many components make up a great retirement income plan, in my opinion, the two primary elements for determining an optimal age to embark involve how long you will live, and whether your emotionally ready to take the step. If odds are you’re going to break the curve on longevity, retiring early may strain your resources’ ability to meet the goal; working a little later, at least part-time, may be the prudent path. However, none of this really matters if you aren’t emotionally ready. Leaving work creates a vacuum in your life; one which needs to be filled in order to restore balance. Casting off into retirement with plans and desires guiding your direction is a much healthier transition.
Investors should note that diversification does not assure against market loss and that there is no guarantee that a diversified portfolio will outperform a non-diversified portfolio. Investing in alternative investments may not be suitable for all investors and involves special risks such as risk associated with leveraging the investment, potential adverse market forces, regulatory changes, and potential illiquidity. There is no assurance that the investment objective will be attained. Investors must meet specific suitability standards and understand these investments are for a long-term investment horizon. Money market and other capital preservation funds are neither insured nor guaranteed by the U.S. Government, and there is no assurance that a $1.00 share price or book value will be maintained.

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