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Saving enough to live to age 100 not a very useful goal

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One million dollars is often bandied about as a good target for retirement savings, even though for most of us, it's just a fanciful figure.

Now, another round number: 100. That's the age we should expect to live to and save up for.

It's obviously excessive, but that's the whole point: Saving to live for a century would more than likely overshoot one's actual lifetime budgeting needs.

Even Glenn Ruffenach, a longtime writer on retirement at The Wall Street Journal, recently noted that 100 isn't such a bad benchmark given our rising life expectancies.

Yet the underlying issue isn't really making it to 100. Life expectancy is unknowable.

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Instead, it's the fundamental issue of balancing longevity versus lifestyle.

In other words, what's the best way to ensure that you will have enough money - no matter the age - to live reasonably well?

PLAN, THEN ADJUST ALONG THE WAY

Retirement planning isn't finished when retirement starts. It must be adjusted over the years, says Scott Plaskett, senior financial planner and chief executive officer of Ironshield Financial Planning in Toronto.

When he initially meets with clients, he asks about family history and longevity. His typical rule of thumb, however, is to look at average mortality tables and then add five years as a target life expectancy. This number can be adjusted as the client ages.

But forget 100 years as a serious benchmark. In a report in 2014 by Canada's chief actuary, average lifespans for Canadians may not ever reach 100. Men in their mid-60s are expected to live on average to 84. Women are likely to live to 87.

Yet the improvements in longevity are expected to slow. For instance, men born in 2075 should reach 90 on average, and women born then will reach 92.5, the report said. So the idea that we'll all reach 100 really is overshooting from the start.

ATTAINABLE CASH FLOW VS. DESIRED CASH FLOW

Setting a realistic lifespan target - the average life expectancy plus five years - provides a much needed number for the retirement equation. It helps experts calculate the kind of cash flow necessary to maintain a standard of living. And although it can be difficult for some to talk in such cold, calculating terms, it may be necessary.

"One of the calculations that we employ in our planning is what's called an attainable cash flow. It's not the cash flow that they [the clients] are asking for.

It's the attainable cash flow, what they could have based on the calculation of dying five years past their life expectancy," Mr. Plaskett said.

If a client needs only $65,000 annually, and the planner is telling her that the attainable cash flow is $85,000, then that adds an extra level of comfort.

"But if they are living off a $65,000 cash flow and I tell them their attainable cash flow is

$50,000, that's a different planning conversation," he said.

BREAK DOWN RETIREMENT INTO CHUNKS

Because one's financial needs can change over time, financial planner Daryl Diamond of Diamond Retirement Planning in Winnipeg recommends sectioning off retirement into smaller periods.

In the first stage, people use savings to travel and hobbies, or help support younger family members. "In many cases, they spend more money than they thought they were going to. That doesn't persist, but for a lot of people, it's a bit of a surprise," Mr. Diamond said.

The next phase often is less expensive as retirees slow down and need less cash. The third phase arrives when medical expenses and the cost of extra care rises sometimes drastically.

The chunks of time can vary in length. "Sometimes it's one-year chunks, as in 2008 and 2009," when markets tumbled, Mr. Diamond noted. "That was for all intents and purposes a true crisis, in terms of not only the investment market, but people taking money out at the same time," he said.

DISMISS THE 100-YEAR TARGET

Ultimately, though, focusing on lifespan and not lifestyle too can become a problem.

"Think about what that's going to do," Mr. Plaskett said. "That's going to force you to deny yourself more along the way.

"Because if you're aiming for 100, and you only make it to 80, then you've got 20 years worth of cash flow that you were putting aside for future years that you're never going to use during your lifetime. What fun is that?" Mr. Diamond agreed.

"We want people to spend their money and make it a fulfilling retirement," he said. "If they [a married couple] both end up at age 95, and they have three times the money they started out with, but they've done absolutely nothing through retirement, that's not much of a retirement experience," he said.