

# Everything You Always Wanted To Know About Retirement\*

**T**HOSE INTERNET RETIREMENT CALCULATORS sound like a great idea. Just enter a few data points, and *voilà*: a fail-safe plan to ensure that you spend your golden years in comfort. In reality, though, these little snippets of Java script raise more “hows” and “whens” than they can possibly answer. That’s because any really honest retirement planning will bring you face to face with some big, scary questions.

For instance: When will you die? No, we’re not being intentionally morbid. But without at least some iffy sense of your life span, it’s impossible to know how long your retirement will last—which makes planning for it difficult, if not downright meaningless. After all, living to 150 sounds like a grand idea ... unless you’ve only got enough savings to make it to 82. (No one wants to be a burden to their 120-year-old kids.) And your life expectancy is just the first in a slew of imponderables.

Never known to shy away from a challenge, FORTUNE set out to answer the most essential unanswerable questions regarding retirement. And we didn’t just rely on actuarial tables and official data: We got our hands dirty, plowing through reams of research reports, studies, and statistics. We went to dozens of doctors, economists, and academics and begged them to tell us what we can expect. And we crunched the numbers to see what the past can tell us about the future.

On the following pages, you’ll find our snapshot of retirement in the years to come, complete with pointed, specific answers to even the most difficult queries. We’ve also provided graphs, tables, and timelines to give you a better sense of what the future holds. There’s no need to be afraid anymore; you’ll be able to fill out those retirement calculators with confidence. Now all you have to do is save.

REPORTER ASSOCIATE *Noshua Watson*

*How long will you live? What will your investments return? What will inflation be? We roll up our sleeves and dig into the stickiest financial questions.*

*by Christine Y. Chen*

## \*But Were Afraid to Ask

# How long will you live?

GENE THERAPY. NANOTECHNOLOGY. HUMAN GROWTH hormone. Every day, it seems, we read about another biological breakthrough that just might extend our life span another couple of notches. Eileen Crimmins, professor of gerontology at the University of Southern California, says at some point we'll all be living to 100: "It's a basic biomedical revolution that has to occur."

But don't start planning your Sweet 116 just yet—it's anyone's guess when we'll actually break the century mark. "If you're in your 20s, I would not be surprised at all if you live beyond 100 or even 120," says Robert Goldman, M.D., chairman of the

10,000-member American Academy of Anti-Aging Medicine. But Robert N. Butler, M.D., president and CEO of the International Longevity Center, calls that "super-optimistic"; he says that even if cancer, heart disease, and stroke were cured tomorrow, life expectancy would increase by only a decade.

Heck, why wait for medical science? The doctors we spoke with said that with enough exercise and vice restraint, Americans could extend the average life span to 85, from the current 77, within the next few decades. For a more personal estimate, check out the detailed Living to 100 Life Expectancy Calculator (sample question: "Do you drink green tea daily?") at [www.livingto100.com](http://www.livingto100.com).

## Aging by The Numbers



Some researchers say that 50% of baby girls **born today** will reach age 100.

The average life expectancy in 1900 was **49 years**.

In ten years midlife crises will start **at age 64**, according to a recent survey.

The average American wants to die **at age 91**. Only 25% hope to make it to 100.

The oldest known person ever, France's Jeanne Calment, **died at age 122** in 1997.

### Results May Vary:



If you're among the 40% of American adults who never exercise in their leisure time (ahem), you may wish to spend your nest egg earlier.

## In the Pipeline

	Within 5 years	5 to 10 years	10 to 20 years	20 to 40 years
<b>Heart disease</b>		Drugs, in addition to lowering blood pressure and cholesterol levels, will be able to fix the walls of blood vessels themselves.	Artery blockages, in many cases, will be preventable.	Heart disease will no longer be the leading cause of death.
<b>Stroke</b>	Vitamin therapy will cut the risk of stroke. New drugs will prevent blood clotting.	New, less invasive surgical procedures to treat strokes will be in common use.	The most damaging effects of stroke will be reversible even up to 12 hours after the event.	
<b>Cancer</b>	Many of the 300 different cancer treatments currently in development will be made available.	New medications will target specific cells to fight different forms of cancer.	The development of gene therapy will help cut the cancer death rate in half.	Vegetables will be specially bred to include concentrated cancer-preventing compounds.

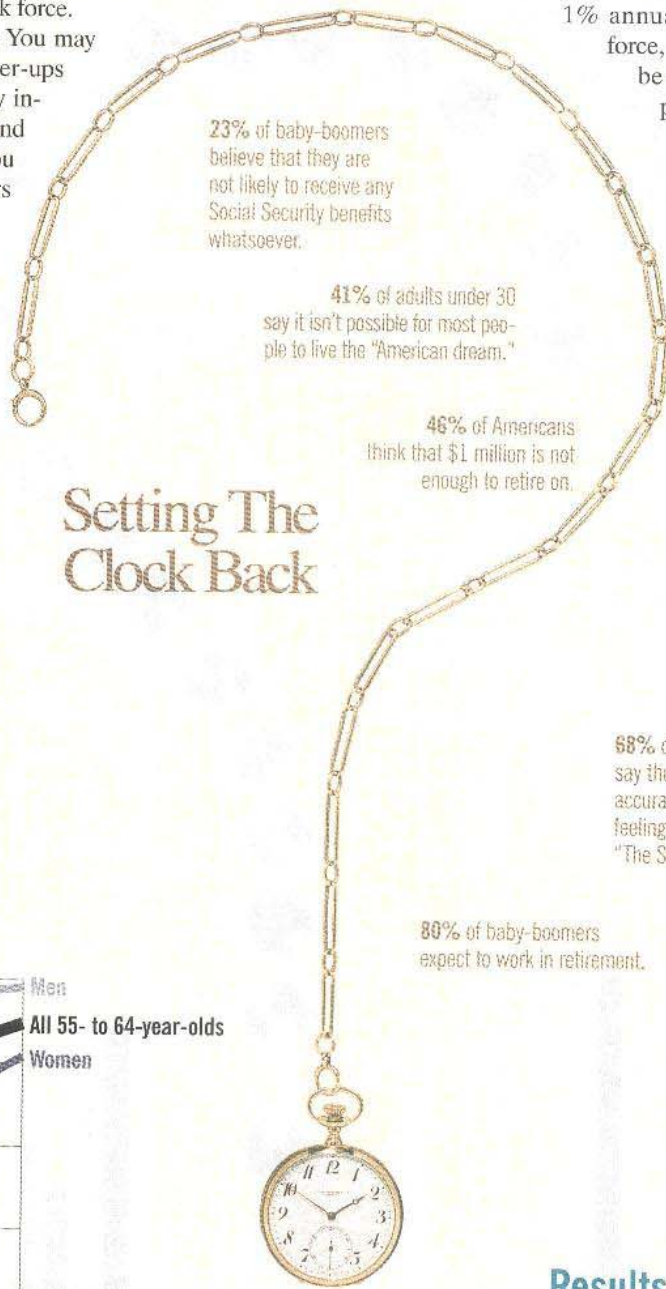
# When will you retire?

YOU KNOW THAT FANTASY YOU HAVE ABOUT EARLY retirement? The one where you give your boss the what-for and spend your 50s lying on a beach somewhere? Well, forget about it. (Or, rather, postpone it.) Despite all the talk of stock market-fueled cashouts, the median age of the work force has gone up 15% in the past 20 years. And experts say that the average retirement age could increase a half percent per year over the next few decades as baby-boomers gray, but stay in the work force.

Now for the good news: You may not have to kowtow to higher-ups anymore. If the data is any indication, your boss will bend over backward to keep you happy. "The next ten years

will be the decade of employees, rather than the decade of shareholders that we saw in the '90s," predicts Eric Lofgren, global director of benefits consulting at Watson Wyatt. Look for a whole slew of new office perks in coming years, including phased retirement (transitioning from full-time to part-time work while keeping benefits). Why? Tip your hat to demographics. Lofgren estimates that when

the boomers finally do retire, we'll see a 1% annual decrease in the work force, meaning employees will be ever more valuable. The party will last for about ten years, when the so-called echo boom enters the workplace in full force.



23% of baby-boomers believe that they are not likely to receive any Social Security benefits whatsoever.

41% of adults under 30 say it isn't possible for most people to live the "American dream."

46% of Americans think that \$1 million is not enough to retire on.

68% of people 65 and older say the song title that most accurately describes their feelings about retirement is "The Sounds of Silence."

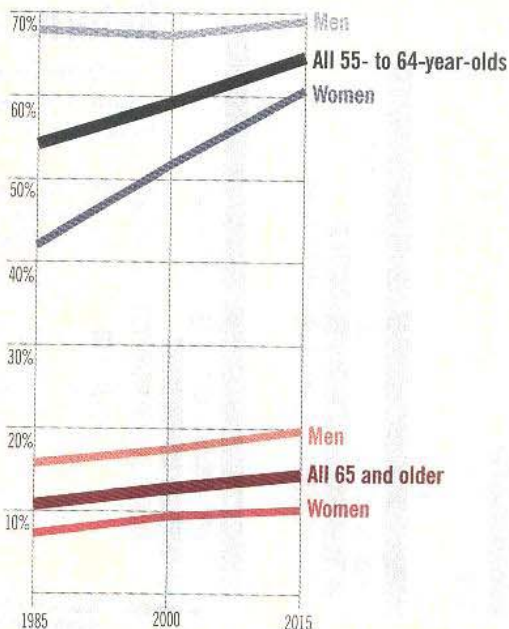
80% of baby-boomers expect to work in retirement.

The number of North Americans with at least \$1 million in investable assets grew 2.4% last year, to 2.54 million.

## Setting The Clock Back

### Keep Your Gold Watch!

American work force participation rates by age and gender



### Results May Vary:



The 19% of workers who haven't saved a penny for retirement can expect to spend their golden years working at the Golden Arches.

# What will your investments return?

HAS THE STOCK MARKET ROLLER COASTER LEFT you with a bad case of whiplash? Well, on the bright side, that painful crick in your neck could serve as a sobering reminder that 20% returns don't last forever. Then again, maybe that's not the most helpful lesson when it comes to retirement planning. What you want, of course, is to have *some* idea of what your investments will earn in the coming years.

To that end, we asked Chicago research and consulting firm Ibbotson Associates to predict the average annual return of the stock market for the next several decades. Their best guess: 9.37%. (True, that's below the 11% historical return of the

S&P 500, says Chairman Roger Ibbotson, who contends that P/E ratios can't keep on growing as fast as they have.)

That's not taking bonds into account, mind you. And if there's one lesson that emerges from historical data, it's that diversification is essential for any kind of steady return. Last year, for instance, long-term Treasuries had a total return of 21%, blunting those brutal tech losses. Indeed, a conservatively balanced portfolio—60% stocks, 40% bonds—would have gained 5% in 2000. But the real test? Even with the Depression and a World War, this diversified portfolio has returned an average of 10.3% over the past seven decades.

## Thoughts For Your Pennies

Since the Social Security Administration started paying benefits in 1937, the equity markets have shown positive returns for **48 years** and negative returns for 16 years.

At least somebody made money last year. The combined wealth of "high net worth" individuals in North America jumped 9%, to **\$8.8 trillion**.

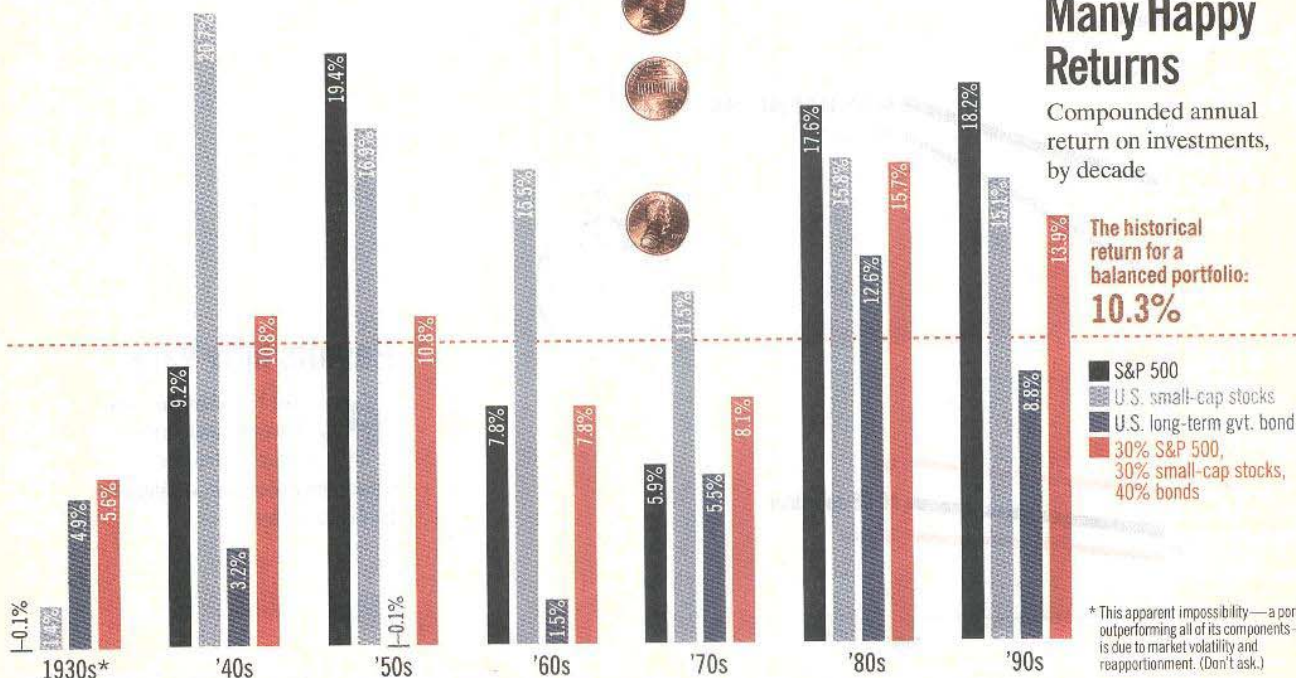
In the past year alone, the number of companies in the S&P 500 that pay dividends **dropped by 20**.

After periods of very low stock valuations, the market has typically gone up nearly **16% per year** during the following decade.

### Results May Vary:



The 50% of 401(k) participants who have no allocation strategy live year to year. And maybe hard to mouth.



\* This apparent impossibility—a portfolio outperforming all of its components—is due to market volatility and reapportionment. (Don't ask.)

# What will inflation be?

EVEN IF YOU MAX OUT YOUR 401(K) AND INVEST wisely, your retirement savings are subject to forces beyond your control—namely inflation, which can wipe out thousands of retirement dollars every year. So to suss out what the likely damage to your own nest egg will be, we asked 27 of the nation's top economists to dust off their crystal balls and predict an annual inflation rate for the next several decades. Their consensus: a surprisingly low 2.7%.

Yes, while it's conceivable that stagflation could come back along with that other eerie bell-bottomed incarnation, ABBA, it's highly unlikely. Thank Alan Greenspan and his fellow inflation hawks at the Fed, who have made

controlling this scourge their highest priority. "The U.S. Federal Reserve has taken historical lessons to heart," says Brookings Institution economist William Dickens. "I don't think you'll ever see an episode like the 1970s again."

How significant is the news? Judge for yourself. The table below, courtesy of the Employee Benefit Research Institute, looks at how long your savings would last under three different inflation scenarios: today's 3.6%, our predicted 2.7%, and—just for fun—the 13.5% that we saw in 1980. As you can see, even a drop of a few tenths of a percentage point can mean another year-plus of solvency. One more reason to be glad the malaise days are behind us. **E**

## Cost of Living... Longer



**Grand Slam breakfast**  
at the Market Center Blvd.  
Denny's in Dallas:  
Today: \$2.99  
In 2030: \$6.47



**Senior discount ticket**  
at the Q Cinema 9 in  
Omaha:  
Today: \$5.00  
In 2030: \$10.83



**Efferdent Plus**  
denture cleanser with  
FreshBurst Listerine (108 count):  
Today: \$5.49  
In 2030: \$11.89



**Winnebago**  
Adventurer Model 35U:  
Today: \$105,783  
In 2030: \$229,065



**15-day Elderhostel trip**  
to "Bulgaria—Crossroads  
of the Balkans" (spring):  
Today: \$2,745  
In 2030: \$5,944

## Results May Vary:



We might have inflation licked, but medical costs won't flatline anytime soon. Your out-of-pocket personal health care expenses are expected to almost double in the next decade, and your prescription drug expenses could nearly triple.

## Empty Nest-Egg Syndrome

Someone who retires with \$100,000 withdraws the equivalent of \$10,000 in 2001 dollars every year. Assuming a 10.3% return on investments, how long will his or her nest egg last? The answer depends on inflation.

If inflation is	Life span of nest egg is
2.7%	17.9 years
3.6%	16.2 years
13.5%	9.3 years