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If You Plan to Make It to 100, Plan Very Well

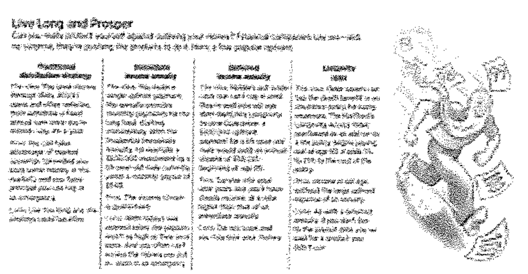
By CHARLES PASSY

A 78-year-old woman walks into an insurance agent's office. She spells out her history: She's a breast-cancer survivor. She's on medication for bipolar disorder. Her father died of a massive heart attack in his 60s. Then she announces what she wants: a $20 million life-insurance policy.

Not that long ago, the woman would have been flatly rejected. But late in 2010, the insurance company the Hartford issued a $20 million policy to her. In fact, top executives on the underwriting team signed off on the paperwork in a mere 30 minutes.

The woman's bout with cancer happened during her late 50s, explains Assistant Vice President David Redpath—so according to the Hartford's latest guidelines, there is little likelihood of a recurrence now.

Her father's early death from heart disease? No worry there—the woman, having made it so far into her late 70s, had already "outlived the danger marker," says Mr. Redpath.



Ross MacDonald

Indeed, by the Hartford's calculation, the woman will live to the ripe old age of 92½. And by investing her $1 million annual premium, the Hartford figures it ought to be able to turn a tidy profit on her policy.

On first blush, such a business decision may seem to be merely a bold poker play. But there's something at work beyond risk taking. Ever so quietly, insurance-industry number crunchers are tossing aside the old statistical models and life tables.

They're recasting tired stereotypes about the "fatal" diseases of yesteryear. They're rethinking that most ancient of questions: How long will we live? And they're coming up with what many would say is a radical answer: Much longer than we think.

Call it the new death calculus—the 21st-century equation for determining human longevity. It's hard to conceive of a math problem with more at stake in the outcome. Add together the money held in life-insurance policies and annuities, the assets of private and government pension plans, and the trillions of dollars Americans have saved in retirement plans, and you begin to get a sense of the ante—somewhere on the order of $27 trillion. (And that's leaving aside the matter of Social Security—a 14-digit-dollar question of its own.)

Government and business aren't the only interested parties, of course. As the expectations of human longevity morph and shift, so should people's retirement plans. After all, to prepare for just four additional years of life span over current projections, someone who's 50 years old now would need an additional $160,000 in retirement savings to maintain a modest lifestyle, experts say.

As for Americans whose retirement strategies won't be affected, Stephen C. Goss, chief actuary of the Social Security Administration, can name only one quickly: "Bill Gates."

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Working from a home office deep in the woods outside Asheville, N.C., Robert Pokorski—a 59-year-old physician-philosopher, M.B.A. and practicing Buddhist—is steadily transforming the Hartford's underwriting manual. That tome, which defines each variable in the insurance company's actuarial calculus, is now more than 2,000 pages long, having quadrupled in size over the past three decades.

Over the years, Dr. Pokorski and other physicians have made the case that heart disease and several forms of cancer are no longer the "death markers" they once were. As recently as 1995, for instance, a man with advanced coronary disease was uninsurable. Now it's expected that an arterial blockage can be repaired relatively simply and new plaque buildups can often be controlled with medication.

The changes, in the Hartford's case, have been immediate—with hundreds of formerly uninsurable applicants now getting coverage (or better classes of coverage) each year.

On many levels, this is a business decision: accommodating such customers is likely to give the Hartford a slight edge on the competition. The sales numbers back up that idea in part. The Hartford increased year-over-year sales by 15% in the first half of 2011, compared with an industry average of 4%.

Rivals aren't exactly giving ground: Representatives for top insurance companies like MetLife, MassMutual and Prudential also say their underwriting manuals are changing by the month.

Dr. Pokorski says he's optimistic that changes like this will continue to make sense; when assessing longevity, he continues, one doesn't need to look to the future for guidance as much as to the past.

Since 1940, American men have gained about a year of life expectancy—and American women, 1.1 years—with every five-year period. If we merely hold to the same pattern, he says, average life expectancy at birth by the end of this century will be close to the century mark.

Not everyone in the business believes that humankind is on the threshold of a longevity rally. S. Jay Olshansky, an actuarial expert who teaches at the University of Illinois at Chicago, cites the current obesity epidemic as one major obstacle.

It's impossible, he says, to continue the gains of the past century with a population that's so much heavier and thus more vulnerable to a host of serious health conditions, from diabetes to heart disease.

And even if, somehow, we were to find cures for cancer, heart disease "and just about everything that kills us," Mr. Olshansky says, we'd still only arrive at an average human life span of 90. To go beyond that, medical scientists would have to come up with a way to slow the biological processes of aging itself.

Regardless of whose math is right, the main problem facing many investors remains the risk that they'll outlive their money. Here, financial advisers are in much closer agreement than are the death-calculus experts. It's essential to plan financially at least through age 95—and if you have a history of longevity in your family, figure on surviving to the century mark.

"I went to my father's 100th birthday party a few weeks ago," says David Littell, a retirement-income expert at the American College, a leading school for financial research. "So I take this seriously."