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Can We Afford to Live to 100?

Our increased longevity poses a retirement planning challenge.

Some of us may retire at 65 and live to 100 or 105. Advances in health care may make this a strong possibility. The corresponding question is: will we outlive our money?

More people are spending more of their lives in retirement. According to the actuaries at Social Security, today's 65-year-olds have roughly a 25% chance of living into their nineties, and about one in ten will live to 100 or longer. Clearly, this puts a strain on Social Security. When it first sent out retirement benefits in 1940, the average life expectancy for a 65-year-old was 79. It was not designed to fund 30-year retirements.[1,2]

Social Security aside, many Americans are retiring with inadequate savings. A Vanguard study says that retirement savers aged 65 or older have average balances of just $197,000 in their workplace retirement accounts. IRA distributions, home or business sale proceeds, and pension and Social Security income may help them out in the first decade of retirement, but what about the decades that might follow?[3]

Three factors may lead us into a gigantic retirement crisis. People are not saving enough, they are living longer than ever, and the retirement planning process now emphasizes self-reliance. These challenges amount to a "perfect storm" for the financially underprepared and unfortunate – a population that threatens to grow.

There are three ways pre-retirees can respond to these challenges. 1) retire later 2) save and invest more and spend less 3) consult a financial professional about retirement planning rather than going it alone. If Gen Xers and baby boomers are lucky, they may see a fourth response in the form of legislative changes to help retirees.

Retiring after age 70 could become the norm in 10-15 years. Pair healthier seniors and new technologies, and you could see millions of septuagenarians working 40-hour weeks. Retiring at 75 could leave us with ten fewer years of retirement to fund. *(continued on page 2)*

Comprehensive Financial Planning: What It Is, Why It Matters

Your approach to building wealth should be built around your goals and values.

Just what is comprehensive financial planning? As you invest and save for retirement, you may hear or read about it – but what does that phrase really mean? Just what does comprehensive financial planning entail, and why do knowledgeable investors request this kind of approach?

While the phrase may seem ambiguous to some, it can be simply defined.

Comprehensive financial planning is about building wealth through a process, not a product. Financial products are everywhere, and simply putting money into an investment is not a gateway to getting rich, nor a solution to your financial issues.

Comprehensive financial planning is holistic. It is about more than "money." A comprehensive financial plan is not only built around your goals, but also around your core values, ● What matters most to you in life? ● How does your wealth relate to that? ● What should your wealth help you accomplish? ● What could it accomplish for others?

Comprehensive financial planning considers the entirety of your financial life. Your assets, your liabilities, your taxes, your income, your business – these aspects of your financial life are never isolated from each other. Occasionally or frequently, they interrelate. Comprehensive financial planning recognizes this interrelation and takes a systematic, integrated approach toward improving your financial situation.

Comprehensive financial planning is long range. It presents a strategy for the accumulation, maintenance, and eventual distribution of your wealth, in a written plan to be implemented and fine-tuned over time. *(continued on page 2)*

Comprehensive Financial Planning: What It Is, Why It Matters *(continued from page 1)*

What makes this kind of planning so necessary? If you aim to build and preserve wealth, you must play "defense" as well as "offense." Too many people see building wealth only in terms of investing – you invest, you "make money," and that is how you become rich.

That is only a small part of the story. The rich carefully plan to minimize their taxes and debts as well as adjust their wealth accumulation and wealth preservation tactics in accordance with their personal risk tolerance and changing market climates.

Basing decisions on a plan prevents destructive behaviors when markets turn unstable. Quick decision-making may lead investors to buy high and sell low – and overall, investors lose ground by buying and selling too actively. Openfolio, a website which lets tens of thousands of investors compare the performance of their portfolios against portfolios of other investors, found that its average investor earned 5% in 2016. In contrast, the total return of the S&P 500 was nearly 12%. Why the difference? As CNBC noted, most of it could be chalked up to poor market timing and faulty stock picking. A comprehensive financial plan – and its long-range vision – helps to discourage this sort of behavior. At the same time, the plan – and the financial professional(s) who helped create it – can encourage the investor to stay the course.[1]

A comprehensive financial plan is a collaboration and results in an ongoing relationship. Since the plan is goal-based and values-rooted, both the investor and the financial professional involved have spent considerable time on its articulation. There are shared responsibilities between them. Trust strengthens as they live up to and follow through on those responsibilities. That continuing engagement promotes commitment and a view of success.

Think of a comprehensive financial plan as your compass. Accordingly, the financial professional who works with you to craft and refine the plan can serve as your navigator on the journey toward your goals.

The plan provides not only direction, but also an integrated strategy to try and better your overall financial life over time. As the years go by, this approach may do more than "make money" for you – it may help you to build and retain lifelong wealth.

Citations

1 - cnbc.com/2017/01/04/most-investors-didnt-come-close-to-beating-the-sp-500.html [1/4/17]

Can We Afford to Live to 100? *(continued from page 1)*

Retirement saving is not a top priority for many households, especially given today's economic pressures. That does not mean it can be ignored. We used to save more than we do now: the U.S. personal saving rate routinely exceeded 7% until the mid-1990s. During the Great Recession, it reached 8.1%; in September 2017, it was down to 3.1%, with personal saving levels mirroring those seen right before the Great Recession.[4]

How many pre-retirees chat with a financial professional about their goals and investment approach? How many have defined goals and investment approaches? Yes, this sort of consultation is not free – but it may be worth every penny, just in terms of offering insight as well as possibly steering pre-retirees away from retirement planning errors.

If enough seniors struggle to make ends meet (or if there is a national emergency of senior homelessness or indigence), we could see the federal government respond by boosting retirement benefits. Cutting Social Security benefits would be unthinkable in such a crisis, so payroll tax (and the amount of income subject to it) could increase instead. The resulting inflows could potentially help Social Security's balance sheet as well as its beneficiaries.

We are all financially challenged by increasing longevity. Assuming we need 30+ years of retirement income is not unorthodox, merely pragmatic. From that assumption, we can plan for our futures with an understanding of how much money we may need to live comfortably and pursue our dreams.

Citations

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