WHEN I'M 65

By Erik Ford

When putting together retirement plans, three key questions are 1) when do want to retire? 2) what do you want to live on in retirement? and 3) how long do you expect to live? The last question is the most difficult but may be the most critical. What you need to retire and how you invest before and during retirement depends on how long you expect your retirement to last. Statistics tell us that our retirement periods are likely to be longer than we think.

Traditional life expectancy measures understate life expectancy once we reach age 65 because it includes deaths in the population prior to age 65. What is important for retirement planning is life expectancy once one reaches age 65. For example, women non-smokers in good health at age 65 have a 71% chance of reaching age 85, a 52% probability of reaching 90 and almost one in three is expected to reach age 95. For men at age 65 in good health and non-smokers, 62% are expected to make it to 85, 41% are expected to reach 90 and one in five to live to 95.

For a healthy, non-smoking couple, the chance that at least one of the two will reach age 85 is 89%. The chance that one out of the couple will reach 90 is 72% and the probability that one of the couple will reach age 95 is 44%. The kicker is that for a couple at 65 in good health and non-smoking, almost one in five will have a survivor that reaches 100! All that means that retirement, regardless of when you start, may last a long time. (above predictions are from the Social Security Administration)

The lessons from this are that if we take care of ourselves, we need to take care of our retirement planning because it may need to cover a long time. We may not have the luxury of turning off the risk of our portfolios in retirement, as we need further growth beyond the point when we start to draw down on our retirement savings.

This brings us back to how we manage our investments. Because our retirement periods may be longer than we imagined, investing with growth in mind post retirement may be a necessity. Investing for growth involves risk and volatility, not something anyone wants when they are no longer adding to their retirement resources. With investing time is on our side, and in retirement we must plan for more time than we may think. Financial markets are volatile, period, but that volatility is tempered with time. As life expectancies increase, the time we need to invest for in retirement increases. It is important that we keep that in mind as we construct and monitor our portfolios.

When looking at our retirement, we have some control over how long we work, our lifetime earnings and our lifespan based on lifestyle decisions. We have total control over how much we save and how we allocate those investments, both before and after retirement. The period for which we need to plan is one of the most important inputs, but also one of the most difficult concepts to grasp.

While the Beatles may have sung about being sixty-four, our thoughts and plans need to extend much longer.

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