

MoneyMatters

Shift to Your Dreams

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Contributing Writer

Did you know that in the 1900s, only 4% of our U.S. population lived to see 65? This is according to American Demographics. In the 1930s, the average life expectancy for Americans improved to an age of about 55.

Now, after 75 years, a 65-year old man has a 50% chance of living to 85 and a 25% chance of living to 92, according to the Society of Actuaries. For women, the projected lifespan is even longer. This is good news as it gives us all more time to fish, to boat, to play golf or tennis, or to visit our kids and grandkids.

However, a longer lifespan can also present a financial challenge. If you retire at 65, you may well be drawing on your liquid assets for 30 years or more. So how can you make sure that you have enough money to live? Here is some food for thought to help ensure that your liquidity will last as long as you need it to:

1. Set a Target

First, determine how much you'll really need in retirement. Many financial advisors will say you'll need 70% of your current budget. But be realistic. Most Americans (actually 94%) would like to live at the same level of comfort in retirement as they did during their working lives.

Once you've come up with an annual retirement budget, determine how you will finance your retirement. According to a recent survey, retirees draw from the following sources:

- Personal savings & investments: 29%
- Corporate pension: 17%
- Self-established retirement plans: 15%
- 401k plans: 13%
- Sale of business: 8%
- Sale of real estate: 7%
- Social security: 5%
- Anticipated inheritance: 4%
- Other sources: 2%

Once you've determined how much of your retirement budget will need to be covered by your assets, divide that number by .04 (4%) to determine the size of the portfolio you'll need to have to produce your retirement income.

2. Invest Your Age

One of the biggest issues to consider in funding a 30-year retirement is inflation. If inflation increases at an average of 3% a year, the amount you pay for goods and services will double every 24 years. Your annual income level needs to keep pace.

This invest-your-age formula can help you address that issue:

- Take your age — minus 10% — as a%age of your portfolio.
 - Put that amount into fixed income—i.e. bonds and cash.
 - Invest the rest in stocks.
- So when you're 60, you'll likely want

to have 50% of your assets in cash and bonds and the rest in a mix of large-, small-, mid-cap and international stocks. At 95, you'll still want to have 15% of your assets in stocks.

3. Keep an Adequate Cash Reserve

The biggest factor in the success of your retirement investing will be your ability to withstand volatility in your portfolio. So be diversified! There's nothing worse than having to dip into your stock portfolio when the market is down 30%. Even a bond portfolio has capital fluctuations. To avoid cutting into your principal significantly during a market downturn, and to have ready access to liquidity, keep a cash reserve large enough to cover three to four years of your annualized expenses.

4. Use a Sustainable Withdrawal Rate

Monte Carlo Simulation is a computer analysis that runs more than 1,000 tests on a portfolio's survival rate—i.e. chance of meeting one's financial needs. Given different rates of return and volatility, the simulation asks, what%age of a portfolio could one withdraw each year and still be assured that your assets will last as long as you need them?

The answer is 4%. Given any portfolio and any market conditions, if you never withdraw more than 4% from your portfolio, you should never run out of money (the purpose of the earlier 4% factor).

What withdrawal rate is sustainable for you? We recommend that you review your situation with a financial advisor every year or so to determine a reasonable withdrawal rate.

5. Remember, It's about More than Money

Once you've developed your plan and are on the right track toward a financially secure retirement, shift the focus from your retirement income to your retirement dreams. What are you going to do in retirement?

It could be supporting the arts in the area, learning to play bridge, learning a new language, or spending more time with your grandchildren. Don't wait until you turn 65 to get started. By getting involved in these activities early in life, you'll be making a different kind of investment in your future.

A longer life may be indeed great, but plan for it. It may be helpful to work with a financial advisor to help you develop a plan and keep you on track to finance what may well be your 30-year retirement.

(The foregoing discussion is general in nature and is intended for informational purposes only. It does not represent a legal or tax opinion. Because the facts and circumstances surrounding each situation differ, you should consult your tax advisor and estate planning professional before taking any action based on this article.)

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