

Funding 35-40 Years of Retirement

If you live to 100, can you avoid outliving your money?

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Will you live to 100? Your odds of becoming a centenarian may be improving. Earlier this year, the Centers for Disease Control reported that the population of Americans aged 100 or older rose 44 percent between 2000-2014. The Pew Research Center says that the world had more than four times as many centenarians in 2015 as it did in 1990.^{1,2}

If you do live to 100, will your money last as long as you do? What financial steps may help you maintain your retirement savings and income? Consider these ideas.

Keep investing in equities. The S&P 500 does not automatically gain 10 percent or more each year, but it certainly has the potential to do so in any year. As the benchmark interest rate is still well below 1 percent, fixed-rate investments are not producing anything close to double-digit returns. Some fixed-rate vehicles are even failing to keep up with the current inflation rate (1.5 percent). Turning away from equity investments in retirement may seriously hinder the growth of your savings and your level of income.³

Arrange some kind of pension-like income. If you can retire with a pension, great; if not, you may want other income streams besides Social Security and distributions from investment accounts. Renting out some property may provide it; although, the cost of third-party management can cut into your revenue. Dividends can function like a passive income stream, albeit a highly variable one. Even creating online content may provide residual income.

Hold off filing for Social Security. If you are in reasonably good health and think you may live into your 90s or beyond – and that could prove true for you – then retiring later and claiming Social Security later can make great financial sense. If you wait to claim your benefits at Full Retirement Age (which will range from 66 to 67, depending on your birthdate), you will have fewer years of retirement to fund than if you left work at 62 and claimed benefits immediately. By continuing to work, you are also allowing your retirement savings a few more years to potentially grow and compound when they are at their greatest – so this might be the wisest step of all.

If your savings are large enough, you could try living only off the interest. If your invested assets equal \$1 million and your investments return 5 percent in a year, could you live on that \$50,000 plus Social Security or your pension in the succeeding year? You may be able to do that, perhaps easily depending on where you choose to live in retirement. You would not be able to do that every year, of course – you would have to dip into your principal if your portfolio returned almost nothing or took a loss. For every year you manage to live off the equivalent of your investment returns, however, your principal goes untouched.

Funding 35 or 40 years of retirement will be a major financial challenge. The earlier you plan and invest to meet that challenge, the better.

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Citations.

- 1 - money.usnews.com/money/blogs/planning-to-retire/articles/2016-01-22/how-to-finance-living-until-100 [1/22/16]
- 2 - pewresearch.org/fact-tank/2016/04/21/worlds-centenarian-population-projected-to-grow-eightfold-by-2050/ [4/21/16]
- 3 - tradingeconomics.com/united-states/inflation-cpi [10/20/16]