Planning for a Long Retirement

Brought to you by Andrew Seaborg in conjunction with Lincoln Financial Advisors

Americans are living longer than ever, thanks to advances in health care, improved diets and better exercise. About one out of every four 65-year-olds today will live past age 90, and one out of 10 will live past age 95, according to data from the Social Security Administration.

This is great news of course. But, it also presents you with a significant financial challenge: making sure your money lasts as long as you do. The possibility of running out of money is one of the biggest risks many retirees will face in the years ahead. The challenge: If you are close to retirement, it's more important than ever to think about how to make your money last by addressing some key issues. For example:

Your spending habits

Don't assume that your expenses will decline significantly once you leave the workforce. Retirees today and in the future are likely to be much more active than previous generations and will pursue lifestyles that require more money. True, some expenses may go down; you may, for instance, downgrade to a smaller home. But others – such as travel and leisure, healthcare and prescriptions – will almost certainly increase.

Your portfolio

A longer retirement gives inflation more time to erode your purchasing power. Conventional wisdom is to become less aggressive with your investments as you near retirement. The problem is that bonds and other fixed-income investments may not keep up with inflation. This means you'll probably want to start your post-career life with a healthier allocation in growth-oriented investments such as stocks. Stocks have had a better track record outpacing inflation than other forms of securities, although they also carry greater risk and volatility.

Your withdrawal strategy

The amount of money you withdrawal from your portfolio each year in retirement will have a big impact on whether or not your savings can go the distance. Withdrawal percentages per year that were historically deemed "safe" may not cover today's living expenses and can significantly boost the risk that you may run out of money during retirement. To help generate a steady stream of income for a period of years or over your entire lifetime, consider annuitizing a portion of your portfolio to cover necessities. An annuity can be your own guaranteed account to cover the necessities in life. (Guarantees are subject to the claims paying ability of the issuing insurance company.) Think of your other investments as the bucket that allows you to live your dreams, the ones you feel comfortable doing knowing the necessities are covered.

Your health care costs

An extended retirement may mean a greater need for specialized medical care down the road – and with fewer employers offering lifelong health insurance; the burden will fall largely on individuals. Therefore, your plan also should set aside some assets to pay for long-term care. The national average for full-time long-term care services can range from $2,860 per month to $14,386[1] – an amount that can quickly deplete a retirement portfolio. That makes it imperative to plan for unforeseen medical and health care problems before they occur.

If you review your situation and discover that you're not as well prepared as you'd hoped, don't panic. There are plenty of smart moves you can make to get on track. You might consider looking for ways to build up your retirement savings – for example, by saving more or investing any bonus or inheritance you receive.

Another option is to increase your investment allocation to stocks and high-yielding fixed income instruments if you can handle the risk or vehicles that will help to ensure a lifelong income stream. An additional alternative is to join the growing number of Americans who are choosing to delay retirement or work part time in retirement to generate additional income. In short, you have options.

The key is to start planning now. But since your situation is likely to change over the years, you'll need to meet with your financial planner periodically to discuss your financial plan, how it is performing and if changes have occurred that could affect your plan.

By giving yourself as much time as you can to implement a comprehensive financial plan – and to review it along the way – you'll increase your chances of achieving a comfortable and secure retirement, and live the life you've dreamed of for decades to come.

[1] What Care Costs, www.whatcarecosts.com/Lincoln/2016