As investors, we are constantly reminded that it is almost impossible to avoid risk in our investment portfolios. Issues like trade wars, geopolitical risk, liquidity risk, interest rate risk, market volatility, uncertainty and the list could go on forever.

But for the Baby Boomer generation who have retired or will be facing retirement over the next few years, there is another risk that could be more important than any of those on our list of worries. That risk is longevity risk.

The good news is that people are living longer. The not so good news is that one of the biggest threats to current and future retirees will be outliving their retirement nest eggs.

When looking at the type of volatility the market has experienced over the past 3+ months, one may be tempted to ask themselves why they own stocks in the 1st place. And the answer is, it’s the surest way to counter longevity risk.

As life expectancy continues to increase, managing longevity has become a key issue in retirement planning.

This trend of increasing longevity is beginning to accelerate like never before. Going forward, we will live longer in retirement than previous generations and we will enjoy better and more active lives during retirement. Some interesting data on increasing longevity:

In 1900 the average life expectancy was 47. Today it is around 78 and for those with a college degree the number is even higher.

Americans have 20 plus healthy years of life after age 60, on average, and this is increasing every year.

The fastest growing population segment is the 85-plus age group.

One-person households are the fastest growing – with over 43% of women living by themselves.

Nearly one third (30%) of couples over age 65 now live without their children nearby.

Given these trends, longevity planning is one of the most important parts of a successful retirement plan to help you navigate through the golden years that could very easily last for decades. Longevity planning not only considers the amount of money and spending levels you will need for a successful retirement; it also looks at how your goals and preferences will evolve over many decades. Issues such as post retirement careers, continuing education, activities, and living arrangements are all considerations as we continue to ask, “What’s Next”.

Living beyond your early 80s has become commonplace and this trend will continue. The trick in managing investment portfolios to meet these goals is balancing safety with the need to keep pace with, or better yet, beat inflation.

This requires a portfolio allocation to the stock market. Even owning a broad index does not eliminate market risk. As much as possible, you will want to protect against market declines by having possibly two-three years of immediate expenses set aside if possible. The key is to never put yourself in a position where your riskier holdings (stocks) are needed in the near term (such as within 5 years).

This way, an event like the Great Recession won’t affect your short-term income needs and put you in a position of having to sell assets before they have had time to recover.
Q1 in Review

As the first quarter of 2018 comes to a close, one thing comes to mind that we have not seen in the investment markets in the past two or so years: the return of market volatility.

Over the first three months of 2018, the S&P 500 experienced 6 trading days of plus or minus 2%. After starting off 2018 with a bang in January, US Large Cap equities were down .8% as investors considered the implications of rising interest rates, trade tensions, inflation and fiscal stimulus. US small caps were only marginally better for the quarter ending down .1%. The bond market and international equities were both negative for the quarter and emerging market equities were the one bright spot ending the quarter up almost 1.5%. It is reasonable to expect significant daily moves to continue this year as the markets debate the issues above.

While we may see increased market volatility from one day to the next, we believe investors and their portfolios should not overreact to new information one way or the other.

With increased market volatility, it is only natural to want to look at your investment portfolios more frequently (this is not a good thing to do). Your investment portfolios represent money that you have set aside for some future purpose or goal: income in retirement, purchase of a home, or college education as examples. Each goal has its own time horizon and each goal allows us to focus on what matters most in our lives.

Should you feel uneasy or have questions about how your investment portfolios are invested or how they match your current and future goals, please give us a call in the office and we will make sure that we address your concerns and set up time to meet.

As we begin 2018, we want to welcome a new member to the Summit Wealth and Retirement Partners team. Ryan McCloskey joined us in the beginning of April as our Chief Operating Officer and Chief Compliance Officer. Ryan comes to us from Lincoln Financial Advisors with over 16 years of industry experience and Ryan holds his CFP designation.

The entire Summit team thanks you for your continued support and trust in managing your family’s wealth and assisting you in your planning and attainment of your goals.

Hal, Rob, Ryan, Naumy, Jennifer, Geoff and Maryline
Sources

Charles Schwab and Company
JP Morgan
Texas Tech University
MIT AgeLab
Social Security Administration
Vanguard
Nextavenue
The American College of Financial Services Transamerica