

Retirees Need to Plan for Longer Life Expectancies

By Jerry Miccolis

Many people have decided they've had enough of roller-coaster financial markets. They're bailing out and placing the money in "safe" havens like bonds, cash, and CDs.

Understandable—but for a great many people this is *precisely* the wrong thing to do. Bonds and cash will not provide you with protection against inflation. And for most people, the biggest threat to a comfortable retirement is inflation — not short-term market volatility.

All investors – regardless of age – should begin their retirement planning with an underutilized tool: an actuarial life-expectancy table.

Recent tables have some eye-openers. If you are a 65-year-old male, you have a 50% chance of living to 85 (88 if you're a female) and a 25% chance of living to 92 (94 if female). A couple at 65 have a 50% chance that at least one spouse survives to age 92 and a 25% chance that one will survive to age 97. If you're already over age 65, you can expect to live to even more advanced ages. And it is expected that future data will likely extend those life expectancies even further.

Most people understate their life expectancies — and thus their investment horizons — by at least a decade. To achieve a retirement portfolio that will meet your needs through your expected lifespan without exposing you to too much risk, you need a portfolio of diverse investments that work together to both exploit and tame market volatility. This will produce a less volatile, yet high-performing portfolio over the long term.

A truly diversified portfolio should include stocks, real estate, commodities, timberland, agribusiness, managed futures, absolute-return strategies plus some safe havens like bonds as well as portfolio protection. And you need to rebalance these asset classes regularly.

Actuarial information is from 2000 and is provided by the Society of Actuaries.

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