

ARE YOU GOING TO OUTLIVE YOUR ASSETS?



Life expectancy has increased dramatically

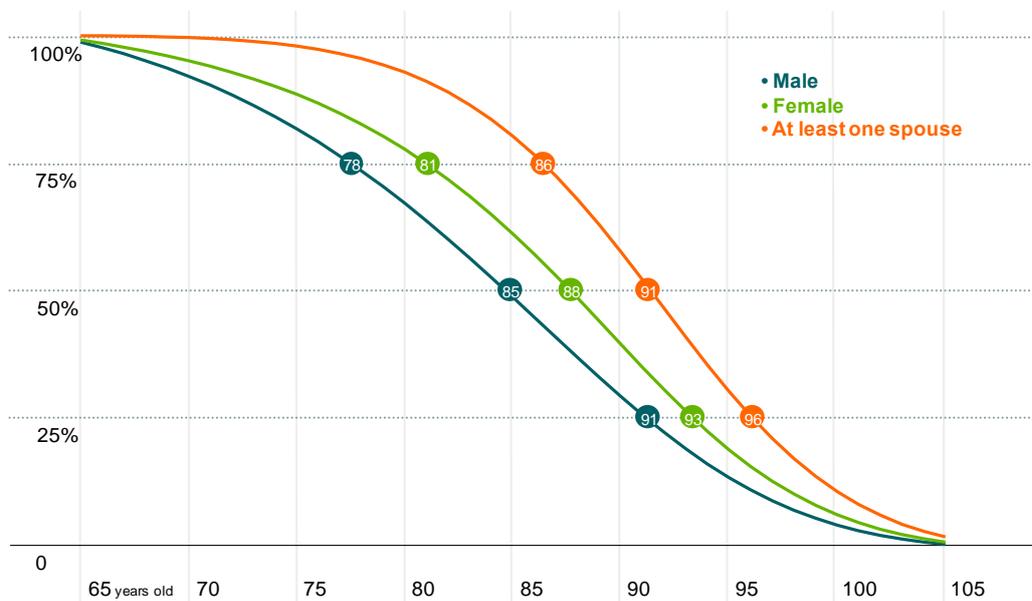
Living a long and healthy life is something we all aspire to. Thanks to improving medical science and living standards, the life expectancy of the population as a whole has increased by 65% over the last 120 years. Unfortunately from a financial planning point of view, this increased life expectancy brings with it increased longevity risk which is the risk of running out of money in retirement.

50% of couples will now survive beyond age 90

1. How Long Should You Plan to Live?

“Three score years and ten” is no longer enough as there is a 50% chance that at least one spouse in a retired couple will live beyond 90. The following graph summarises current life expectancies at the typical retirement age of 65:

Retirees Should Plan for a Long Retirement
Probability of a 65-year-old living to various ages



2. What Much Wealth do You Need?

Timing luck is a big factor determining success

There is no simple answer to this critical question except that “it depends”. For example, what are your lifestyle needs? What legacy do you want to leave to children? Unfortunately, luck also plays a part in terms of the timing the draw-downs from your investments relative to the investment market cycles. This luck factor can account for 20-60% of the ultimate success of any retirement strategy

3. What is Your Sustainable Spend Rate?

Assume a 4-6% sustainable real withdrawal rate

Another way of looking at “how much you need” is to understand how much of your savings you can spend each year. Again it depends but assuming a balanced portfolio and a 30 year investment horizon, then there is an 80% chance of your portfolio surviving at a real (inflation-adjusted) sustainable withdrawal rate of 5% pa but this drops to only 50% at a 6% rate.