

The Meridian Memo

Meridian Financial Advisory

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Retirement Planning: Longevity Risk

Dear Meridian Clients and Friends:

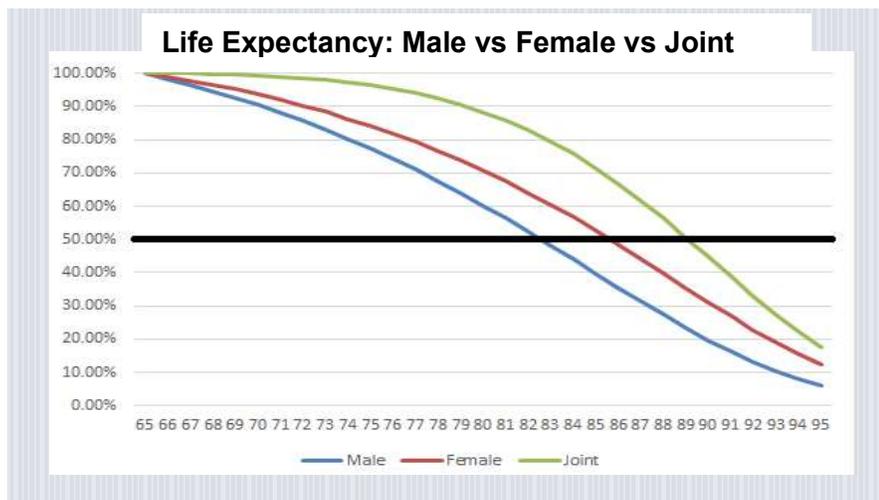
It is nice to be beginning the normalization process after a difficult year and a third. In these newsletters we like to cover a range of relevant topics related to financial planning, investment management, and new tax laws, among others.

The overarching reason why people work with financial

both **asset return** and **asset protection**. We have in past newsletters mentioned some of the risks that could imperil your plans in retirement.

It struck me when making a post the other day on LinkedIn about longevity risk, that I hadn't given the topic much attention in these pages. That risk deserves as much attention as any other.

Let me ask you. What per-



planners is so they can get guidance regarding how they prepare for retirement and once they are in retirement, how to translate their accumulated deferred spending (savings) into lifetime retirement income. That means

centage chance are you willing to accept that you will outlive your money? My guess is that you would like to keep this risk as low possible and as a fiduciary advisor, I feel the same way for my clients. For a married couple where

About Us:

Meridian is always working to stay on the cutting edge of planning and investment management. Some of this comes in the way we manage assets and plan for retirement income. Our most fundamental objective however is to help our clients achieve their lifestyle objectives, restore order where needed and obtain financial peace. Part of that means risk management and part of that is achieved by self-insuring, risk avoidance and risk mitigation. In some cases, it may mean transferring risk. Whether risk transferring is for the purposes of guaranteeing income, protecting against a premature death or a Long-Term Care event (which 70% of retirees will have), it is incumbent on us as fiduciary advisors to have all these tools in our toolbox. In risk management, one size solutions do not fit all. To help expand our selection, we are happy to announce that we have partnered with an NFP owned company to provide the very best suite of options from any carrier as **independent** agents. Our philosophy as a firm is to combine options in a non-ideological way recommending the solution that best serves the client.



both spouses are alive at 65 years old, there is a 50% chance that one lives until the age 92. Does that mean when we are creating a plan for a 65-year-old couple that we can create a plan that only ensures their money lasts 27 years (the number of years the spouse who lives the longest is likely to live)?

My guess is you quickly answered no. There is no way you want a 50% probability that you outlive your money. That is far too high of a risk to accept. There are lots of strategies that can be brought to bear to manage longevity risk including:

- 1) **Thinking about what level of distributions from your retirement savings is sustainable** (where small increases are factored in to keep up with the cost of living). Advisors need to have conversations with their clients about their clients' health and family health history.
- 2) **Developing ideal Social Security, pension, and annuity planning strategies.** Spousal coordination and survivorship planning is important in this area.
- 3) **Designing a portfolio that provides a solid inflation hedge.** An overly conservative portfolio overweighted in low risk, highly quality bonds may not provide that protection.
- 4) **Carefully managing portfolio volatility.** That

does not mean the stock market or other risk assets cannot be a considerable component of the portfolio, but the portfolio must restrain volatility because one of the things that can deplete a portfolio rapidly is having to take withdrawals from and make forced sales on investments that have lost value.

5) **Creating the right balance between recurring & guaranteed income** (*pensions, annuities, Social Security, and even p/t employment income*) and **portfolio income**. They each serve important purposes.

6) **Planning based on probabilities** (*using software that can generate thousands of hypothetical return scenarios based on historical returns*) over a 30+ year period can be very helpful in informing an advisor how long a client portfolio will last.

7) **Tax planning can provide a lot more juice and longevity to a portfolio.** For the average mass affluent client (\$500,000 - \$2,000,000 of financial assets) who are the prototypical clients that engage an advisor, forward looking tax planning strategies commonly produce an extra \$200,000 in after tax retirement income.

8) **Integrating the entire planning process** (*investment positioning, cash flow management, tax planning and estate preservation*). Every area impacts the other so a strategy that doesn't

encompass everything by default will be suboptimal. In other words, it won't last as long.

9) **Taking Long-Term Care planning seriously.** Someone turning 65 today has a 70% chance that they will need LTC (duration and level, whether at home or in facility, will vary). **That does not necessarily mean purchasing LTC insurance.** In fact, in many situations, insurance will not be the right course of action. But nevertheless, there needs to be a plan that can balance the need to set aside sufficient resources for this contingency (insuring, self or otherwise) and being able to use your resources to provide for your other expected needs and wants.

Post work life transition:

The financial considerations are a big part of the story, without a doubt. However, other non-financial considerations are also very important. The author of a recent article in "FA News" wrote a list of 6 characteristics of his clients who make the transition into retirement most successfully. They are:

1. Replaced their work identity;
2. Filled their time with meaningful tasks;
3. Stayed relevant and connected;
4. Kept mentally and physically active;
5. Were involved in their places of worship;
6. Felt financially secure.