Can You Beat Longevity Risk? (Yes.)

Retirement is a watershed experience for almost everyone, both financially and emotionally. It may be a welcome change - but for many, it's accompanied by the fear of outliving their money.

How Long Will You Live?

If you can't answer the question above, plan for a long retirement. In 2016, if both a husband and wife reached 65, the chance of at least one of them reaching age 90 was virtually 50% (see chart below). Lots of risks are attached to longevity: among them, enduring a stock-market meltdown; encountering a spike in inflation (remember 1980, when inflation averaged 13.5% for the year?); and facing higher health-care costs, which have consistently outpaced overall inflation.

Lots of Control In Your Hands

The good news, though, is that through planning and discipline, you're likely to have the money you need when you need it:

- **Start planning early:** Compound returns work wonders. And start to think about how much to earmark for your own retirement spending needs, and how much, if any, for a legacy.

- **You can make up some lost time:** Try to store away the maximum amounts in your IRA (now $5,500 a year plus another $1,000 catch-up for investors 50 and older) and/or your 401(k) or similar retirement vehicle ($18,500 annually and a $6,000 catch-up).

- **Social Security can be an anchor, but it's complicated:** Getting the most out of Social Security is harder than most retirees think. For example, should you start taking benefits at 62, your "full retirement age" (between 66 and 67 for those close to or in retirement today), or 70, when benefits peak? There are pros and cons of each strategy—and a host of other issues to consider.

- **The 4% spending rule of thumb may be too generous:** Today, with lower expected returns on both stocks and bonds, 3% of your initial portfolio value, growth with inflation, may be more appropriate.

- **Don't rely solely on bonds—or cash:** Many retirees, fearing stock downdrafts, retreat 100% into bonds—or worse, into cash. These investments are "safe," but they usually don't grow much. In planning for a 25- or 30-year retirement horizon, you need the boost that stocks traditionally supply. A $100,000 portfolio completely in three-month Treasury bills would have never lost money in any 12-month period over the 30 years ending December 2017. But the portfolio would have grown to less than $257,000--not much for a three-decade time horizon. A mix 70% in U.S. stocks (the S&P 500) and 30% T-bills would have increased your ending value to more than $1.3 million - but at the cost of enduring peak-to-trough declines as deep as 30%. A 30/70 mix might have been a good compromise, but there's no one-size-fits-all solution.

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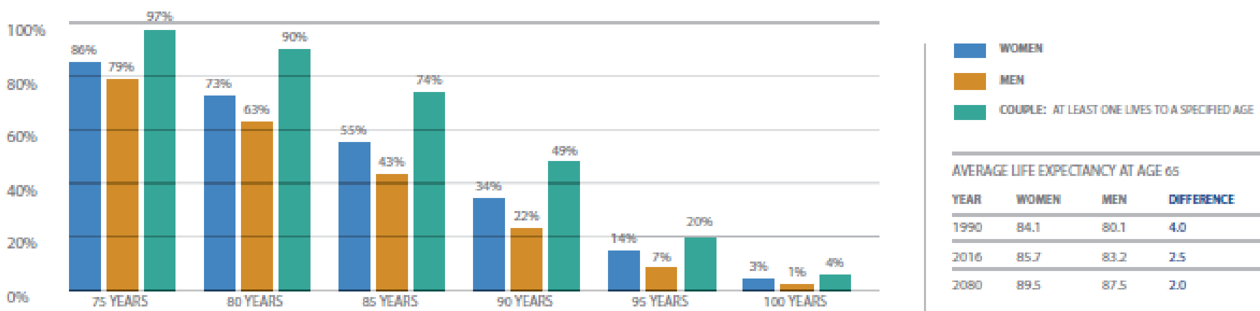
Work with a team of experts—and remember that trade-offs are everything. As the investment theoretician Mick Jagger pronounced, "You can't always get what you want/But if you try sometimes, well, you just might fine/You get what you need."

Life-expectancy probabilities: If you're 65 today, the probability of living to a specific age or beyond



Source: Social Security Administration, Period Life Table

AVERAGE LIFE EXPECTANCY AT AGE 65

YEAR	WOMEN	MEN	DIFFERENCE
1990	84.1	80.1	4.0
2016	85.7	83.2	2.5
2080	89.5	87.5	2.0