When living too long becomes a problem

The whole point of saving and investing for future goals and retirement is to be around long enough to enjoy it.

Your hope is that one day, when you're still healthy and active, you can quit your job and spend your time doing things that your busy working career schedule didn't otherwise allow. Things like extended travel, spending time with family, or having the freedom to move wherever you like.

But what if you're able to enjoy all these things for only a few short years and then your money runs out?

For most people, the idea of living on Social Security benefits in their mid-eighties does not sound appealing. But according to Forbes contributor and financial planner David Rae, many people are relying on three common misconceptions, which may leave them vulnerable to this exact scenario.[1]

A big part of the problem is that just like we don't like to think about our own mortality, we also don't like to think that we may actually live a lot longer than we expect.

Depending on life expectancy statistics

On average, Americans alive today are expected to live to 78.6 years.[2]

However, this was calculated by taking into consideration the likely lifespans of tens of millions of people. An individual may have many more or many fewer years than that, based on a myriad of factors: gender, family history, current health, risky behavior, etc. And then there are the unpredictable tragedies, which may cut a life short regardless of the person's genetics and health habits.

In other words, nobody really knows how long they will live. So designing your retirement income savings to last until you're 78 years and 7 months old isn't very good planning. The best strategy is to have your retirement income structured so that it has very little chance of running out. That way you have a much lower risk of outliving your funds.

Letting your plan run on auto-pilot

According to Rae, the long bull market we've recently experienced has made many investors complacent about keeping an eye on their progress. As long as they see healthy gains, they assume everything is fine.

The potential danger here is that you can't base a successful retirement plan on the expectation of earning double-digit returns every year. Remember that long-term market return rates are an average of up markets *and* down markets. Periodically measuring your progress against predetermined milestones is a prudent and necessary exercise. Additionally, you may need to make changes because of increased income or a changing tax status.

Rae says he's a big fan of "set it and forget it" investing. But that assumes the person is getting professional advice along the way.

Discounting the role of emotion

"Many major decisions in retirement plans are more about emotion than math," says Rae.

People tend to dismiss the emotional impact of deciding something as significant as "where should I live in my eighties?" While at the same time they give their feeling too much sway when they experience market volatility and they have the overwhelming urge to "do something about it."

The solution is to have a plan in place that takes these emotions into account and helps make it possible to resolve major decisions before the turmoil comes.

Long life should be seen as a blessing rather than a problem. Your trusted advisor can help you fine tune a plan that will take into account how much you'll need to stay retired and the steps you'll need to get there.

Sources:

1. https://www.forbes.com/sites/davidrae/2018/08/23/retirement-risks-you-cant-ignore/#367ea0942b45
2. https://www.cdc.gov/nchs/fastats/life-expectancy.htm