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Cadence *clips*

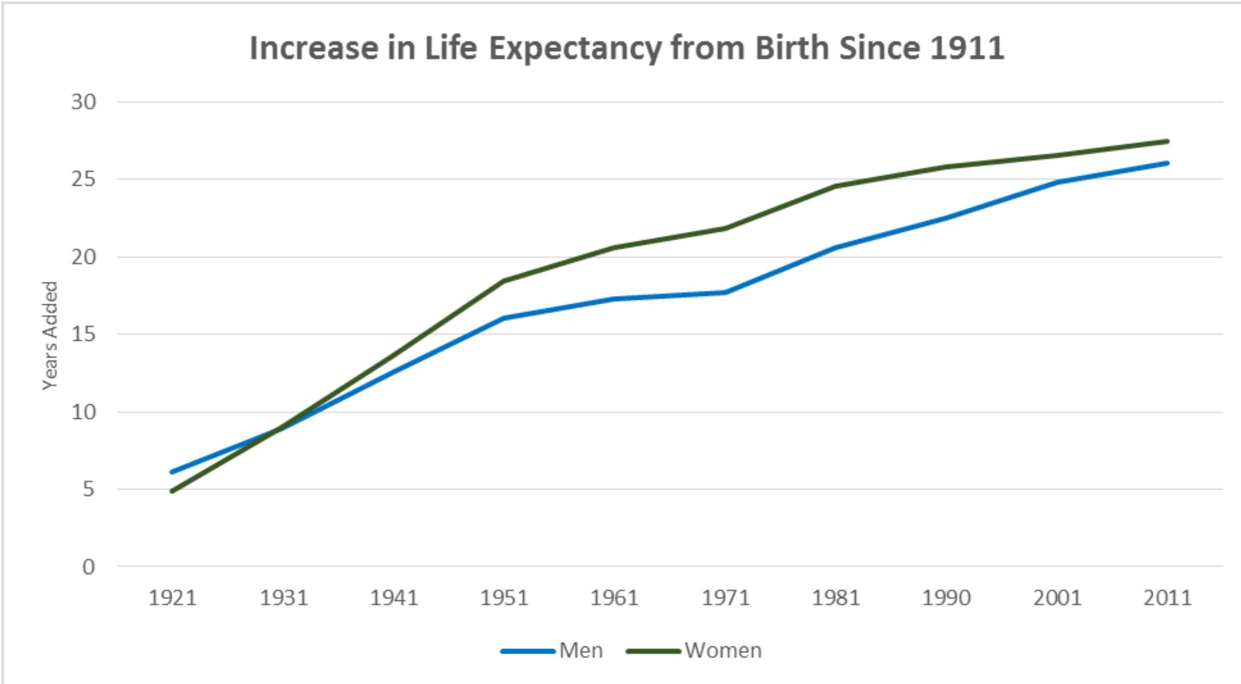
FOCUSED ON WHAT MATTERS MOST.

Live Longer Than You Think, Not Longer Than You Can Afford

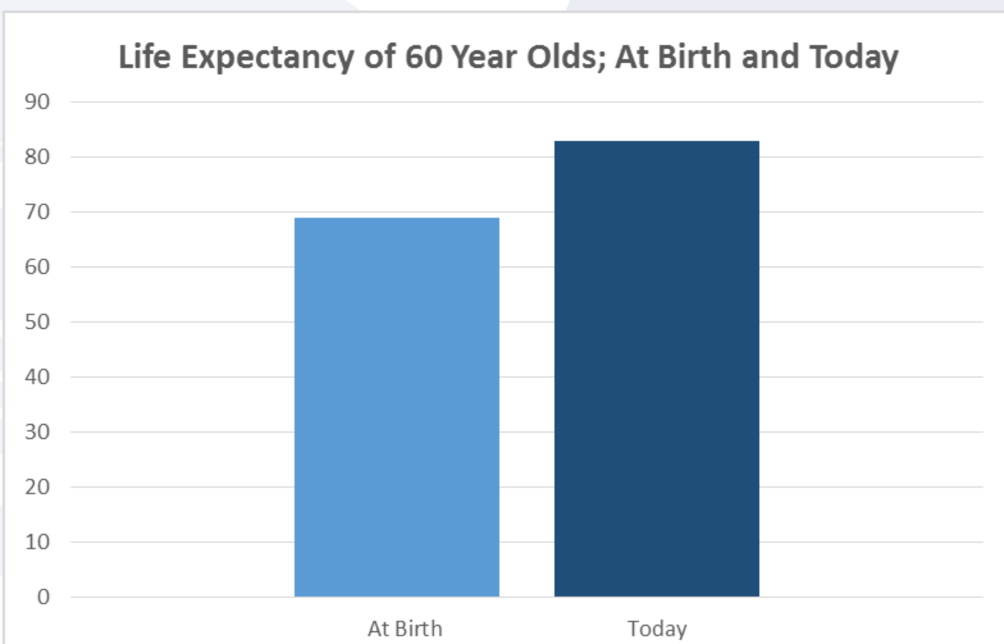
When most people hear that a girl born in America today has an estimated life expectancy of almost 82 years, they believe this means she is expected to live to be almost 82. Since we all know women older than that, we know a girl born today could exceed her life expectancy, but we still assume "life expectancy" means "how long someone is supposed to live". That may be true for the "average" person, but if the average girl born today is supposed to live 82 years, that means it's estimated half will live fewer than 82 years, and half will live more than 82 years. When this is explained to people, that life expectancy is an average, and that it means there's a 50% chance of living beyond that age, that generally tends to make people realize the chances are very good they'll live longer than they thought.

There is a very important financial planning concept contained here. If most people focus on that life expectancy number and factor it in when estimating how much they'll need to save for retirement, they are dramatically underestimating the likelihood they will live beyond that age. To say you're expected to live to a certain age, and to say you're expected to have a 50/50 chance of living beyond that same age mean totally different things for planning purposes. The first implies it's unlikely you need to plan for much beyond that age, and the other implies you MUST plan for beyond that age, and to be safe well beyond that age.

When people hear about the dramatic increases in life expectancy over the last century, what they are usually hearing pertains to life expectancy at birth. As you can see, there have been some very impressive gains made in the average expected lifespans of newborns:

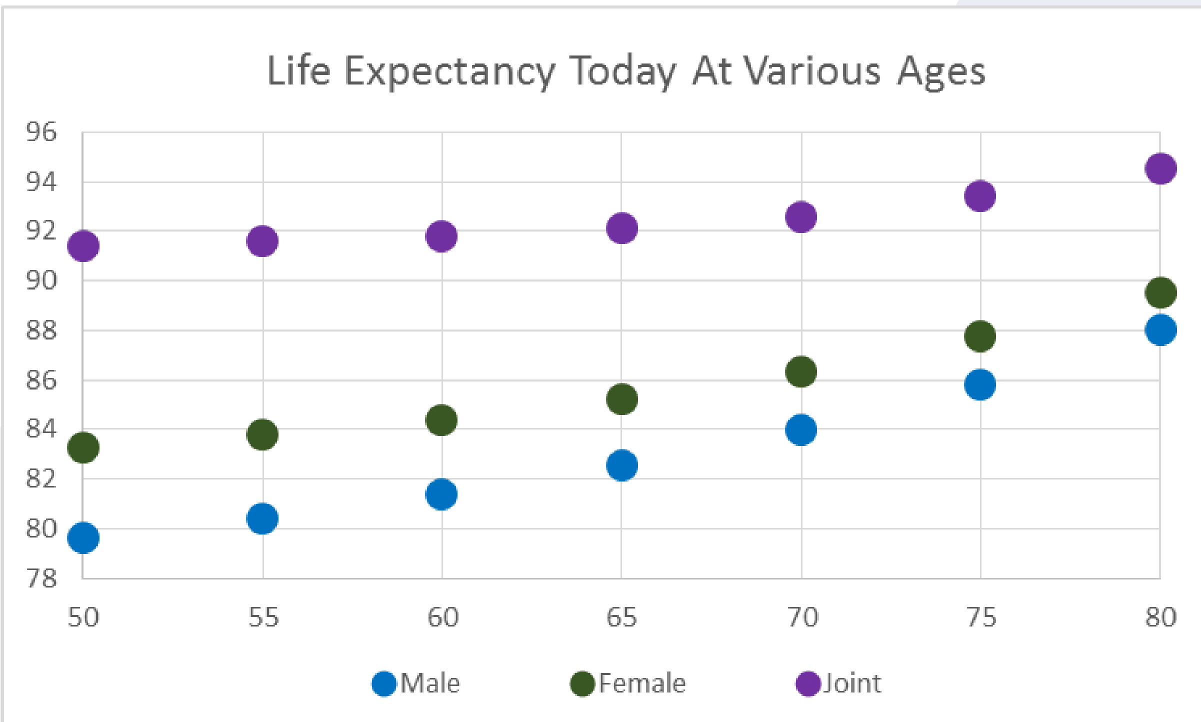


So, the average male newborn is expected to live 26 years longer today than one born in 1911, and the average female newborn almost 28 years. By all accounts, that is a great achievement for our country. Since 1911, the life expectancy of newborns has increased over 50%, and most people are familiar with these improvements because when life expectancy is discussed, it is almost always related to life expectancy at birth. As a result, many people are unaware that our life expectancy actually increases every year we are alive. If you were aware of your life expectancy at birth and haven't checked into the concept lately, you may be surprised to learn that your life expectancy now may be quite a bit higher than it was when you were born.



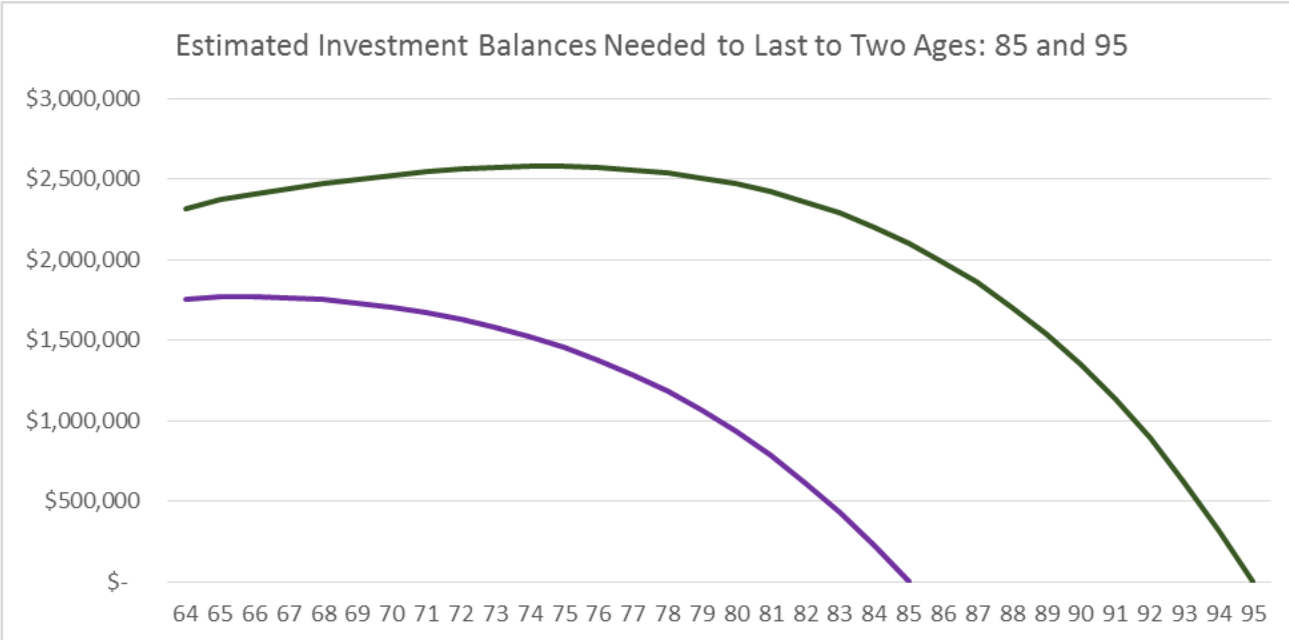
So when a 60 year old today was born, his or her life expectancy was 69 years. Now that he or she has reached 60, that life expectancy has increased 14 years to now be over 83 years. Someone retiring today definitely needs to plan on living beyond age 83, and probably as high as age 90 to be safe.

In addition to life expectancy meaning you have a 50% chance of living beyond a given age, and to your life expectancy increasing every year of your life, the last planning concept affected by life expectancy is what's called joint life expectancy. Joint life expectancy is the estimate of how long at least one of two average people, like a married couple, will live. Like regular life expectancy, it is an average, so in a couple with a joint life expectancy of 92, it is estimated that at least one of them has a 50% probability of living to 92 or beyond. The single and joint life expectancies of various ages today is:



If knowing that as an individual you have an estimated 50% probability of living to a given age means you should plan on your retirement lasting longer than that age to be safe, then knowing that at least one of you has a 50% chance of living much longer than that should also make you plan for a much longer retirement than you may have initially thought.

To illustrate that, consider how much more a 65 year old needs to have saved were he or she to live to be 95 instead of 85. At retirement, this person is withdrawing $4,000 per month from investment accounts, and those expenses are assumed to increase by 3.5% per year while their fixed income, like Social Security, is assumed to increase by 1.5% per year. Additionally, the investments are assumed to increase 6.5% per year.



That initial gap between the two lines represents over $560,000 that would be needed at age 65 to have enough money to last to age 95 verses age 85 with the assumptions we used. This is the financial impact of a longer lifespan, and should be taken into account for planning purposes. For those who are planning clients of ours, rest assured we've taken this into account.

But a longer life should not be seen as a problem, and there are any number of recommended ways to increase your own life expectancy, from exercising and stopping smoking, to socializing more and flossing your teeth. There is a good chance that because you're reading this and you have engaged the help of financial planners, you also have additional habits that reduce your stress and improve other aspects of your health and well-being. As a result, when planning your retirement, it makes sense to factor in having a longer than average life by adding 5 – 10 years to your current life expectancy. The problem we should be striving to avoid is not living too long, but not living those years well enough.

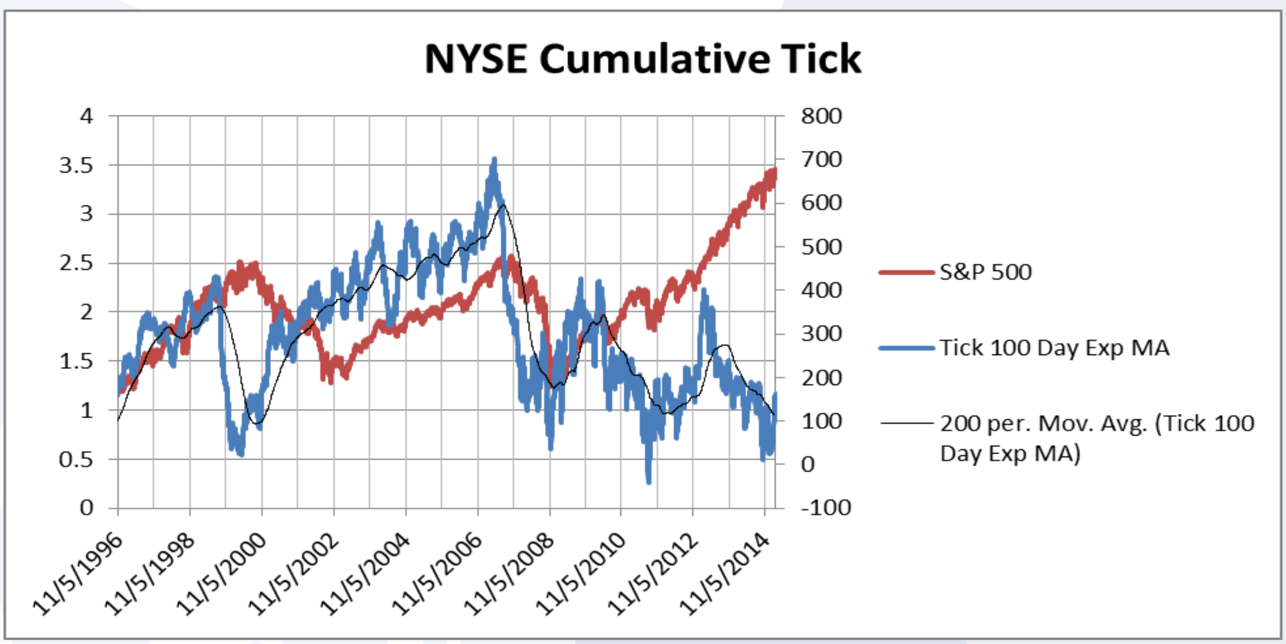
Key Takeaways:

- You have a 50% probability of living beyond your life expectancy.
- Your life expectancy increases every year you are alive.
- It is estimated that at least one spouse will live at least 5 – 12 years beyond his or her individual life expectancy.
- For financial planning purposes, people should plan on living at least 5 – 10 years beyond their life expectancy, and a married couple should plan on at least one of them living at least 3 – 5 years beyond their joint life expectancy.

Investment Insights - Under The Surface

One of the many pieces of data we look at daily when trying to get a complete picture of the market and what it may have in store for us shortly down the path is something called the New York Stock Exchange Cumulative Tick. The NYSE Tick gives us a read-out of how many securities trading on the exchange are trading up or down at any given moment from their previous price. If the number is negative, there are more securities trading lower than they traded last time and vice versa. This information can give us a glimpse into the underlying health of the market over any given timeframe. One of the things we're looking for are times when the cumulative tick shows weakness when the overall market is still rising. We in the investment world call this divergence and it can be a clue that something troubling may be lurking just beneath the surface. It isn't uncommon toward the late stages of bull markets for just a handful of large stocks to move the averages higher while the majority of the stocks are already moving into bear market territory.

What we see in the chart below is the 100 day average of the NYSE Cumulative Tick at the end of each trading day overlaying the S&P 500 going back to 1996. What's very interesting is that shortly prior to the peak of the last two bull markets in 2000 and 2007, the Tick values began to diverge and declined rapidly even though the market continued to march upward. What's more interesting is that we've had two similar divergences since then – one in early 2011 that preceded a near 20% correction in stocks in August 2011 and another throughout much of 2014 that has yet to precede anything. In addition, the NYSE Tick has been chronically weak for much of the last 7 years through one of the strongest bull markets in history, which could signal an underlying lack of commitment to this run-up. Although one metric never tells the whole story and shouldn't be weighted to heavily, this one certainly gives us reason for pause.



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