

Adam Smith Advisors

A Cherry Tree Affiliate

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ADAM SMITH INSIGHTS:

Published by Keith Tuft, President of Adam Smith Advisors, LLC, with insights on investing and wealth management.



INVESTING QUOTE OF THE MONTH:

“Living a long life appeals to everyone, but the idea of getting old doesn’t appeal to anyone.” – Andy Rooney

WHAT IF I LIVE TO BE 100?

Have you ever wondered how long you are likely to live? The average life expectancy for people in the U.S. keeps increasing, thanks to continued improvements in healthcare and technology. According to the Social Security Administration, the life expectancy for the average 65 year old man is currently age 84.3, and for a women it is age 86.6. For a couple who are both currently age 65, the odds are about 50% that one of you will live to be age 90. People with above average income and wealth (like most of our clients) tend to live longer than these national averages.



There is a website (www.livingto100.com) that estimates your life expectancy based on a number of factors such as you current age, family history, diet, chronic illnesses, health habits, smoking/drinking, exercise, stress, sleep, weight, doctor visits, and other factors. This website and calculator are run by Dr. Thomas Peris, an expert on length of life. The survey only takes about five minutes to fill out. I suggest you give it a try, and be honest with your answers.

When I took the survey it said my life expectancy was age 92, in spite of my often non-healthy diet. The website also offers feedback such as telling you how many years you can add to your life expectancy by changing some of your behaviors.

Each person’s length of life will depend on their genes/family history, the health of their lifestyle (diet, exercise, etc.), and random luck (good or bad). Most people hope to live a long life, if they can continue to have good quality of life. You can extend the quality of your later years by improving your sleep, exercise, diet, and other health factors under your control.

If your life expectancy is significantly longer than average, Congratulations! There are a number of things for you to consider from a financial planning point of view.

- You will likely need more assets and/or a lower retirement spending rate to be certain that you can maintain your lifestyle and not run out of money in old age. The number of years in your retirement (or after age 65) is longer than average, and those extra years will need to be funded. Your retirement spending rate of your portfolio may need to be a bit smaller (such as 3.0%-3.5%) rather than the traditional 4% rule of retirement spending.
- You may need to save more during your working years, and it may be prudent to work several extra years before retiring to accumulate a larger retirement nest egg.
- You might start taking your Social Security benefits at a later age, since you get about 8% more in retirement benefits for each year that you wait. People who live longer than average will end up with larger total benefits by waiting until age 70 to start taking Social Security.
- Your total lifetime healthcare costs are likely to be higher, since you will live longer and healthcare costs tend to go up with age. You will likely need to factor higher healthcare costs into your retirement planning by saving more, working longer, or spending less elsewhere.

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- Many people consider long-term care insurance if they expect to live a very long life. Often the last years of life require some assistance in terms of typical daily activities. Many of these costs are not covered by typical health insurance policies or Medicare.
- You could invest in an immediate fixed annuity with a portion of your assets at retirement age. These contracts are priced based on the average life expectancy for someone your age. If you live longer than the average person, your return on investment (and total payments) will be significantly higher than for the average person. In addition, the monthly payments from these annuities last until you pass away and create an income floor for you to help protect you from completely running out of assets and income in old age.

If your life expectancy is below average due to a chronic illness, family history, or other factors you may consider doing the opposite of some of the advice listed above. You could save less, live for today, retire earlier, take Social Security early, spend more than 4% of your portfolio per year in retirement, etc. However, betting on a short life and being wrong is a very risky strategy, just in case you do outlive expectations. You will be likely to run out of money in that situation. We would not recommend it.

*“The first wealth is health.”
— Ralph Waldo Emerson*

If you are married and one spouse has a significantly longer life expectancy than the other, there are a few things to consider. If you are the spouse with the shorter life expectancy and you have a pension or annuity, you might consider getting the 100% survivor benefit option. This option pays out a bit less while you are both alive, but the payments continue until the second spouse dies.

We hope you all live a long, happy, healthy life and have excellent quality of life in your later years. We think taking care of your finances and health are both very important to having a long, successful and happy retirement. Taking care of yourself now from a health perspective can certainly increase the odds of retirement success.

Adam Smith Advisors, LLC (ASA) provides unique wealth management services for a select group of client families to help give them peace of mind. Author Keith Tufte, (CIO of ASA) has over 25 years of successful investment management experience as a Wall Street Analyst, Mutual Fund Portfolio Manager, Director of Equity Research for a major mutual fund firm, Hedge Fund Portfolio Manager, and Wealth Management Advisor. Please FORWARD this e-mail to friends/relatives/business associates that you think may have an interest. Please see our website at <http://www.cherrytree.com>.

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