

Retirement Can Be Long Enough for Something to Go Haywire



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An interesting point was brought up at this week's CFA Institute's Financial Analysts Seminar: retirement is a long enough period of time for something to go haywire. The point was brought up by Barton Waring, a retired chief investor officer for Barclays (which is now BlackRock). He raised the topic during a discussion about retirement income and annuities.



As I've written about before, life-spans have a right-tail risk in terms of economics. The longer you live, the more money you will need. The **Social Security Administration's actuarial table** lists the life expectancy at 76 years for men and 81 years for women starting at the date of birth. These estimates encompass all those who die prematurely (due to accidents, crime, etc.) as well as those who experience shorter life-spans due to illnesses (cancer, heart disease, etc.). As you reach a certain age, your life expectancy increases because all those who have died previously are excluded from the projections.

Let's assume a couple retires at age 65. The odds of at least one spouse making it to age 85 are pretty good, particularly for the wife. That's 20 years of retirement to fund. Fellow men, if we make it to 85, our life expectancy gets extended out to past 90. That's 25 years of retirement to fund. Live to 100 (and the Social Security Administration's actuaries think nearly 3% of women will as of 2013), the retirement time span is pushed out to 35 years. You get the picture. Now think about what's happened over the past 35 years: the rise of personal computers, the ending of the Cold War, Blockbuster Video opening, the 1987 crash, Japan's market crash and (still ongoing) economic slump, the dissolution of the Soviet Union, the S&L crisis, Yahoo/eBay/Amazon/Pets.com launched,

the collapse of Long-Term Capital, Netflix started, the bursting of the tech bubble, the collapse of Enron, the housing bubble, the iPhone introduced, the 2008 financial crisis, Blockbuster Video's bankruptcy, negative interest rates and Yahoo's auction of its internet assets.

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- **Assessing Your Life Insurer's Financial Performance** - Brian Fetchel explains how to analyze a life insurer's financial statements.

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Highlights from the *AAll Journal*

- **Which is Better: 4% Withdrawals or Annuities?** - TIAA Institute compared following the 4% rule against annuitizing and found doing both is a good option.
- **IRA Rollover Chart: Rules Regarding Rollovers and Conversions** - This helpful chart shows what types of retirement accounts can be rolled over or converted into another type of retirement account.

AAll Sentiment Survey

Optimism remained below-average despite the further ascent by the Dow Jones industrial average and the S&P 500 index into record territory. Part of the reason is that AAll members have mixed thoughts about the record highs. [More about this week's results.](#)

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The Week Ahead

Earnings season picks up steam with nearly 200 S&P 500 companies reporting. Included in this group are 12 Dow Jones industrial components: Apple (**AAPL**), Caterpillar (**CAT**), Du Pont (**DD**), McDonald's Corp. (**MCD**), United Technologies Corp. (**UTX**), 3M Co. (**MMM**) and Verizon Communications (**VZ**) on Tuesday; Boeing Co. (**BA**) and Coca-Cola (**KO**) on Wednesday; and Chevron Corp. (**CVX**), Merck (**MRK**) and Exxon Mobil Corp. (**XOM**) on Friday.

The Federal Open Market Committee will hold a two-day meeting, starting on Tuesday. The meeting statement will be released on Wednesday around 2:00 p.m. ET. The CME's FedWatch tool signals a 97.6% chance of the target rate remaining between 0.25% and 0.50%. Expectations for no rate hike at the September meeting are currently at 80.0%, but these expectations are very much subject to change.

The week's first economic reports of note will be the May S&P Case-Shiller home price index (HPI), June new home sales and the July consumer confidence report, released on Tuesday. Wednesday will feature June durable goods orders and the June pending home sales index. June international trade data will be released on Thursday. Friday will feature the first estimate of second-quarter GDP, the Chicago purchasing manager's index (PMI) for July and the University of Michigan's final July consumer sentiment survey.

San Francisco Federal Reserve bank president John Williams will make a public appearance on Friday.

The Treasury Department will auction \$26 billion of two-year notes on Monday, \$34 billion of five-year notes on Tuesday, \$15 billion of two-year floating rate notes (FRN) on Wednesday and \$28 billion of seven-year notes on Thursday.

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