How do I plan for longevity?

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In the fourth quarter of 2013, UBS Investor Watch released a piece entitled "80 is the new 60," a survey that analyzes investment sentiment and behavior. The general takeaway from the survey is that while life expectancy continues to grow slowly, the quality of the years spent in retirement has rapidly increased.

I recently had the opportunity to watch a man in his late 60s finish his 193rd IRONMAN® distance triathlon. We are redefining the term "old" each and every year. Retirement may last 30 years or more, and many of us are planning for family members older and younger than we are.

A few generations ago, we may have defined "retirement" and "old" as one and the same. However, according to the UBS study, 84 percent of investors surveyed said they didn't regard retirement as a sign of being old. "Old" to these investors had more to do with losing one's independence than whether or not one was working.

What are the distinct phases of retirement? The survey said that 9 in 10 working investors under 65 believed they would go through multiple phases of retirement where their activities and spending would focus on different areas.

The first phase, ***transition***, is a time when investors say they may still work, but in a reduced or different capacity. ***My time***, the second phase, is focused on increased travel and leisure. Finally, ***the last waltz*** is when investors believe they will lead a more relaxed, simpler life until, eventually, health issues become a focus.

Planning for a longer retirement, then, is only one aspect of implementing sound judgment. Understanding these three phases and their impact on the quantity of one's financial needs and the key components of those needs is exceedingly important.

Overall, investors tend to underestimate how much of their prior income they think they will need during retirement. When you begin to think of the phases mentioned above, it is easier to understand how this might occur.
Planning for more time and more activities in retirement will mean the need for a larger capital base and a greater level of income from that capital.

These will be significant points as you and your advisor consider portfolio construction today and into the future. Creating and maintaining a plan that incorporates all three phases of retirement will be important. The good news is that we are living longer, with a better quality of life. So, have a plan that allows you to make the most of that time.

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