Financial Partners, Inc.
A Registered Investment Advisor

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Retirement Investment Strategies

Investment strategies for retirement have always had to answer two basic questions:

1) How long will my investments have to provide an income during my retirement? And
2) How much will the cost of living rise during retirement?

There is much public information available on these two questions, but there remains much room for error. Actuarial tables can give us information on *average* life expectancy. The historical or current rate of inflation published by the government probably will not apply during retirement. A prudent investment strategy will require us to plan on more inflation and a longer time in retirement that actuarial tables or government reports might indicate.

How Long In Retirement

The actuarial tables are clear. According to the Bureau of Census, a man who is 65 years old can expect to live another 16.4 years, to age 81.4. A woman can expect to live on average to 84.4 years of age. These statistics are irrefutable, but it would be imprudent to plan a retirement investment strategy on them. Few people will experience these statistics. Since they are an average, half of the population will live longer than the norm.

These averages from the actuarial tables probably do not apply to most people who invest for retirement. The Census Bureau numbers are derived from the entire population- people who have led safe, reasonable live with healthy habits and those who may have not taken care of themselves. It is our experience that our clients fall in the former group and are more likely to live longer than the averages might indicate. So, we believe it is imperative to include an assumption of increased longevity in any retirement investment strategy.

Medical science and its advances, continue to increase life expectancy and the quality of our lives.

The Rising Cost of Retirement

If in developing a prudent retirement investment strategy, we assume that a retiree probably will live into his or her nineties, the cost of living over a 30-plus year retirement will be even more important to consider. If we consider a modest inflation rate of 3% a year, the purchasing power of a fixed retirement income would be cut in half in 25 years. Considering these facts, you can see why putting all of your retirement assets into bonds and other fixed income investments probably would not be a prudent strategy.

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Inflation during retirement is a much bigger concern to retirees than the population as a whole. The problem for retirees is their increased dependence in the high inflation health care sector of the economy. According to Department of Labor statistics, people over the age of 65 spend about 13% of their household budget on healthcare (including insurance premiums). This figure is more than twice the 5.9% spent by the general public. Since healthcare inflation exceeds the averages often by a factor of two, the Bureau of Labor Statistics estimates that retirees on average will experience cost of living increases of about one-quarter point faster than the overall rate inflation.

On top of the purely inflationary issue of healthcare costs, retirees need to plan on the increased cost of medical care overall.

As we continue to work with you to develop and implement a retirement investment strategy, taking into consideration increased longevity and higher levels of inflation will be imperative to assist you in developing a prudent strategy that will meet your goals.

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