HEFFERNAN RETIREMENT SERVICES

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# INDEPENDENT INVESTOR

Timely Insights for Your Financial Future

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**Your HFS Team**
Heffernan Retirement Services
180 Howard Street, Suite 200
San Francisco, CA 94105
800-437-0045
rebeccat@heffgroup.com
www.heffgroupfs.com
CA Insurance Lic# 0I18899



## Longevity Risk: A Key Consideration in Any Retirement Planning Strategy

Americans are living longer, and in many cases healthier lives than ever before. That's good news. But the downside of living longer is that the chance of you outliving your retirement income is becoming more and more real.

Recent research conducted by the Society of Actuaries (SOA), a leading membership-based organization for actuaries in the United States and Canada, revealed that older Americans are living longer than previously estimated. Specifically, SOA's data showed that since its last report published in 2000 the life expectancy of men age 65 has risen two years from age 84.6 to age 86.6 in 2014. Similarly, among 65-year-old women, longevity rose 2.4 years, from age 86.4 in 2000 to age 88.8 in 2014.[1]

## Making Your Money Last

Because of increased longevity, managing cash flow in retirement is more critical than ever. As a starting point you should clarify your current financial situation, as well as any significant changes you expect. Two sources can provide this information:

- A net-worth statement, which provides a snapshot of your assets, debt and cash reserves.
- A monthly or annual budget, with itemized breakdowns of your income and expenses. If you haven't retired yet, it's a good idea to prepare a projected budget of your retirement income and expenses.

Even with reasonable assumptions about investment returns, inflation and retirement living costs, it is likely you will encounter unexpected changes to your cash flow over time. For this reason experts often recommend that you maintain a cash reserve to cover at least 12 months of living expenses in an interest-bearing savings account, though your needs may vary.

You will also need to check your cash flow and budget on a monthly basis in addition to conducting a comprehensive annual review of your financial situation and goals. As you monitor your finances keep the following factors in mind, as any one of them could affect your cash flow and necessitate adjustments to your plan.

- Interest rate trends and market moves may result in an increase or decrease in income from your savings and investments.
- Changes in any of the following could require you to rethink your cash flow assumptions:
    - federal, state and local tax rates and regulations,
    - Social Security or Medicare benefits or eligibility,
    - rules affecting employer-sponsored retirement benefits and private insurance coverage or
    - inflation and health care costs
- Life events such as marriage, the death of a spouse or the addition or loss of a dependent may also affect your cash flow.

## Cracking Your Nest Egg

Another critical step in managing longevity risk is to determine how much you can realistically afford to withdraw each year from your personal savings and investments. You can rely on the expertise of a qualified financial professional to assist you with this task. Or, you can use an online calculator to help you estimate how long your money might last.

One strategy that many financial advisors recommend is to stay conservative and withdraw just 4% to 5% of your account balance each year. However, your annual withdrawal amount will depend on a number of factors, including the overall amount of your retirement reserves, your estimated length of retirement, annual market conditions, the expected inflation rate and your financial goals. For example, do you wish to spend down all of your assets or pass along part of your wealth to family or a charity?

No matter what your financial situation going into retirement, there are ways to potentially make what you have last as long as you need it to. Your financial advisor can help you craft, monitor and maintain a cash management plan that works for you.

[1]Society of Actuaries, press release, "Society of Actuaries Releases New Mortality Tables and an Updated Mortality Improvement Scale to Improve Accuracy of Private Pension Plan Estimates," October 27, 2014. The calculations presented are based on public mortality tables, which were developed with certain populations in mind and reflect probabilities based on averages in large populations.

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