Will Your Money Last As Long As You Do?

By Maureen Crimmins

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In ancient Roman times, there was an elder by the name of Cato who said "Secession of work is not accompanied by secession of expenses." In modern times the quote would be amended to say: "Secession of work is not accompanied by a secession of ever-increasing expenses."

I grew up in a typical middle income town on Long Island with a rather large family. There were five children in an unusually large home in the suburbs with a dog named Happy and a cat named Cleo. The household also included the most important part of my upbringing, my Nana. In those days, it was not uncommon to have a grandparent live with you…at least in my mind. My Nana had lived with my parents since before I was born and remained with me until my 18th birthday.

My Nana was a beautiful, funny and compassionate character with the biggest blue eyes I have ever seen. She would sit at our kitchen table (in "her spot" as we called it) and would positively impact all around her. She was born in 1898 or 1899 (she could not remember the year, and there was no birth certificate to prove it) and had many colorful experiences to share. The blessing was that she had a home with no expenses to speak of and many people who loved her surrounding her until the day she died.

I think back to her circumstances occasionally when speaking to people about retirement. My Nana received a monthly Social Security check, and each month my father would cash her check and give her the money in an envelope. The envelope would be taken to her room and disappear into one of her many dresser drawers. Many years later, my father asked her if he could go through her room and collect the money. She agreed and needless to say the sum was quite staggering! The large sum of money was set aside for college for her five grandchildren and helped me attend a private college.

However, I cannot help but question what that large sum of money could have been had it been invested wisely for all of those years. The safety of her dresser drawer was significant to my Nana, though a bit unwise. She did not need to be concerned about her living expenses or keeping up with rising costs. If she did, then she might not have been able to sustain her lifestyle and could have possibly run out of income.

There are many people who have the same fear as my Nana—and have kept their cash in a "safe" place. Recently a bunch of college students picked up a couch at the local Salvation Army store. They noticed that the couch was a bit bumpy in one area and were shocked to find $40,000 stuffed into one of the pillows. It turned out that an elderly woman had forgotten that her husband had hidden the money in the couch. Lucky for her, the college students searched her out and returned the money. A good deed indeed!

However, the real threat of keeping your money "safe" in a dresser drawer or couch is not from forgetting that it's there. The real danger, which is hidden for most people until it is too late, is the declining purchasing power of cash over time. This real threat has more impact for today's retirees because of their expected longevity. Lessons learned from our youth about maintaining cash made sense when your retirement only lasted a few years but is quite dangerous when it lasts two to three decades.

Life expectancies have increased steadily largely due to an improved modern medical system, and these improvements require us to understand that we need to plan for that longevity. For example, the typical non-smoking married couple retiring at age 65 needs to plan for a three-plus decade long retirement. This modern reality requires an investment strategy based on preparing not just for your current expenses, but also for the ever increasing cost of living of everything that you will need to purchase through retirement. Retirees

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and those planning to retire soon need to understand the impact of inflation during this long retirement and prepare for it.

As an example, using the historic long-term cost-of-living increase (inflation) of approximately 3 percent, one dollar of expenses will require $2.44 in 30 years. To state it another way, you would need almost $2.50 to purchase the same goods and services in 30 years that you purchase in the first year for $1.00. So holding on to that one dollar (or holding on to the principal amount) could be a fatal mistake.

All of us understand the rising cost of everything that we need to buy to sustain our lifestyle. One example I like to use when discussing the issue is when my husband Dan and I were first married and moved into Manhattan and paid $525 monthly for a nice one-bedroom apartment. The same apartment is now going for over $3,000 almost 28 years later. In fact, the parking garage underneath the building charges for a monthly parking spot almost what we paid for our rent 28 years ago.

Many are afraid of investing their money, fearful of losing their principal. However, with the ever increasing cost of living, purchasing power risk should be a bigger concern. You need to plan for this increase and invest in securities that have historically grown more than inflation. Cash does not.

Stuffing your money into a couch or even a savings account doesn't cut it. To maintain your lifestyle in retirement without the threat of outliving your money, you need to concentrate on a different risk and invest in securities that have historically provided investors with returns greater than inflation. These securities are ownership in the great companies in the United States and the world known as stocks. Stocks are the only security that has not only kept pace with inflation historically, but increased at a rate above inflation since the 1920's.

Stocks seem "too risky" for many when they are only concentrating on principal risk, but when you think about you and your partner's longevity and the need to maintain your lifestyle then you should begin to understand the true battle that needs to be won: maintaining your purchasing power in order to maintain your dignity and independence in retirement.

So how should individuals, whether retired or anticipating retirement, structure their portfolios? They need to determine what rate of return is necessary to provide the income in a long retirement so that they are able to maintain their lifestyle without outliving their money.

Work with the financial advisor who can help you determine what that rate of return is for you and the necessary corresponding percentage of your portfolio that should be invested in stocks to maintain your lifestyle over the likely long retirement. Working with this financial coach through the years will help you have the discipline and patience to stay invested during the common downturns in the stock markets so you will be able to achieve your goals.

Your 90-year-old selves will appreciate it immensely. And if you have legacy desires, your children and grandchildren will also be very grateful.

Next issue we will focus on investors' behavior that is the key element to achieving investment success after the initial plan is in place.

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