When it comes to keeping from running out of money in retirement, most people acknowledge two ways to skin the proverbial cat. The first is to generate the income they need to support their lifestyle for the rest of their lives. The second is to maintain or even grow their investment principle balance either to offset the cost of living or ultimately to leave a legacy for their children or charity. Although these may be reasonable and understandable goals, they quickly become challenging and complex when you consider three important variables.

**Spending Habits**
First, you have to take account of your personal spending policy. Everyone spends differently based on their individual values and preferences. You can develop a budget, but very few people are successful at sticking to a budget. Best is a cash-flow analysis since it is likely to produce more precise results. In any case, any evaluation of your spending pattern should break down the expenditures into essential and discretionary expenses. Cash-flow may include direct income sources such as pensions and social security. The balance of your cash-flow requirements will come from withdrawals from your investments. It is important to run this analysis net of taxes since this is really what you spend. Also, in determining where to take your withdrawals, it is important to consider the tax implications. For example, when you withdraw from an IRA, the amount is 100% taxable; whereas, when you withdraw from other accounts, you may only have capital gains tax to consider. Accept the fact that you will probably not be able to change your lifestyle. It’s easy enough for us to elevate our lifestyle when our financial fortunes are on the rise, but nearly impossible to lower our expectations even when financial reality dictates that we do so.

**Longevity of Assets**
The next variable relates to how long your assets will sustain your essential and discretionary spending policy. This is another tough question because no one knows how long they are going to live. Insurance companies have statistics on how long we are expected to live, and this is how they are able to price their life and annuity products, but this does not provide a definitive answer for any one individual. However, it may give you an idea of a time range when your assets are projected to run out. Don Ezra’ describes the concept of a longevity protection policy to hedge against the possibility of your running out of assets before your life runs out. Ezra’s plan uses an insurance element to guarantee your essential income needs in retirement and an investment element to cover your discretionary and estate goals.

We have very little control over how long we live, although medical science steadfastly focuses on prolonging life. By postponing retirement, on the other hand, you can reduce the length of time your assets need to last and if you can continue to save and invest for a few more years, you will have a bigger nest egg. Of course, in the corporate world this is not always an option, especially if you are laid off prematurely. But given the opportunity, a few more years at work can provide a softer cushion in retirement.

**Investment Policy**
The third variable is your investment policy. No one can control or consistently time the investment markets to their advantage, but you can control the amount of your assets you invest in each type of available asset class. This is called asset allocation. The idea is to invest in assets that may respond differently to market ups and downs, inflation, interest rates, and the economy. Most everyone is familiar with the idea of diversification or not “having all of your eggs in one basket”. Asset classes might include US stocks, non-US stocks, bonds, real estate and commodities. We’ve all heard the disclosure, “Past history cannot guarantee future results”, but a strategically allocated and well-diversified portfolio is reasonably predictable over the long term – and retirement should be considered a long-term goal, since the time horizon can be 20 to 30 years or more. The way you invest should be based on your individual goals and you should not take on any more risk than is necessary to achieve those goals.

After considering these three variables, you should have a clearly defined idea of how much your proposed lifestyle will cost; a range of time your assets are projected to last; and a realistic estimate of the investment returns you might earn in the future. There’s more than one way to skin a cat and if you want to avoid running out of money in retirement, our firm has developed practical tactics and solutions you may wish to consider.

**Footnote:**
1. The Retirement Plan Solution, Don Ezra, Bob Collie and Matthew X. Smith

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