Will You Outlive Your Savings?

How Equities Can Reduce Longevity Risk

Presented by NEW YORK LIFE INVESTMENTS
Around the world, more people are living longer.

Despite this, many people underestimate their life expectancy.

Why?
They compare to older relatives.

What else has a large impact?

Gender

Lifestyle

Socioeconomic status

Exercise

Diet

Most importantly, breakthroughs in healthcare have contributed to longer life expectancies over the last century.
They refer to life expectancy at birth.

This is the most commonly quoted statistic. However, life expectancies rise as individuals age. This is because they have survived many potential causes of untimely death - including the higher mortality risks associated with childhood.

### Expected Age of Death in the United States as of 2016

<table>
<thead>
<tr>
<th>Age</th>
<th>Expected Age of Death</th>
</tr>
</thead>
<tbody>
<tr>
<td>At Birth</td>
<td>70</td>
</tr>
<tr>
<td>Age 40</td>
<td>80</td>
</tr>
<tr>
<td>Age 60</td>
<td>85</td>
</tr>
<tr>
<td>Age 65</td>
<td>90</td>
</tr>
<tr>
<td>Age 80</td>
<td>90</td>
</tr>
</tbody>
</table>

Source: Organization for Economic Cooperation and Development
Amid the longer lifespans and inaccurate predictions, a problem is brewing.

35% of U.S. households do not participate in any retirement savings plan. Among those who do, many have low account balances.

The median household (all ages) only holds $1,100 in its retirement account.
Many investors are facing the possibility that they will outlive their retirement savings. Some appear to be working longer to make up for it. The percentage of working seniors has been trending up over the last decade.
What’s more, this problem is not restricted to seniors.

Millennials rate cash as their favorite long-term investment

In the U.S., 41% of those aged 18-29 have no retirement savings

The reduction in defined benefit retirement plans, and worries about the stability of government pensions, compound the retirement savings issue even further.
One of the most important decisions an investor will make is their asset allocation. One strategy lies in the composition of an investor’s portfolio. So, what’s the solution?

THE CASE FOR A Stronger Equity Weighting

As a guide, many individuals have referred to the “100-age” rule. The rule states that as you get older, you should hold progressively fewer stocks to limit portfolio volatility.

As life expectancies rise and time horizons lengthen, a more aggressive portfolio has become increasingly important. Today, professionals suggest a rule closer to 110-age or 120-age.
While simple rules of thumb are enticing, they should only be used as a starting point.

Every investor’s situation is unique and asset allocation depends on many factors:

- Gender
- Health
- Lifestyle
- Risk tolerance
- Overall wealth

For example, Warren Buffett’s Will has a particularly aggressive plan for the funds his wife will inherit:

“My advice to the trustee could not be more simple: Put 10% of the cash in short-term government bonds and 90% in a very low-cost S&P 500 index fund.”

Source: Berkshire Hathaway

Clearly, Mrs. Buffett will be better able to withstand market swings due to the size of her nest egg.
Equities have exhibited strong long-term performance. Equities have delivered much higher returns than other asset classes over time. Not only have they outpaced inflation by a wide margin, many also pay dividends that boost performance when reinvested.

Compounded Value of $100, Inflation Adjusted

Source: NYU Stern School of Business and author’s calculations

Stock performance is measured by the S&P 500 and includes both price appreciation and dividends. The raw data for treasury bond and bill returns is obtained from the Federal Reserve database in St. Louis (FRED). The treasury bill rate is a 3-month rate and the treasury bond is the constant maturity 10-year bond, but the treasury bond return includes coupon and price appreciation. It will not match the treasury bond rate each period. The S&P 500 Index is widely regarded as the standard index for measuring large-cap U.S. stock market performance. Past performance is no guarantee of future results. An investment cannot be made directly into an index.

Inflation is as per the CPI Index obtained from the Federal Reserve Bank of Minneapolis.

Investing primarily in bonds or cash equivalents will generate minimal returns. To build a sizeable retirement fund, investors must incorporate equities.
Small Yearly Withdrawals Limit Risk

Upon retirement, an investor usually withdraws only a small percentage of their portfolio each year. This limits the downside risk of equities, even in bear markets.

Take, for example, a 65-year-old man with a $1,000,000 portfolio.

Last year, the market took a downturn and his portfolio value was reduced by 20% or $200,000.

Over time, he will withdraw during both ups and downs in the market, averaging his return.
Many individuals, particularly affluent investors, want to ensure they leave their loved ones financially secure. This means they have more earning potential, and are better equipped to recoup any losses their portfolio may experience. In light of this, equities are a viable option that may help them maximize their savings.

Some healthy seniors are choosing to work in retirement to stay active. Earning potential can balance portfolio risk. Given the longer time horizon, the portfolio is better equipped to ride out risk and maximize returns through equities. In these cases, many of the portfolio withdrawals will occur after the individual's passing.

This is particularly important for Baby Boomers, who are forecasted to transfer $30 trillion to younger generations over the next 30 years. Source: PWC
Holding equities can be an exercise in psychological discipline. An investor must be able to ride out the ups and downs in the stock market. If they can, there’s a good chance they will be rewarded. Equities have the potential to deliver long-term returns that combat longevity risk.

By allocating more of their portfolio to equities, investors can greatly increase the odds of retiring whenever they want - with funds that will last their entire lifetime.
New York Life Investments is both a service mark and the common trade name of the investment advisors affiliated with New York Life Insurance Company. New York Life Investments, an indirect subsidiary of New York Life Insurance Company, New York, NY 10010, provides investment advisory products and services. Securities distributed by NYLIFE Distributors LLC, 30 Hudson Street, Jersey City, NJ 07302. NYLIFE Distributors LLC is a Member FINRA/SIPC.

New York Life, MainStay Investments, and their affiliates do not provide legal, accounting, or tax advice. You should obtain advice specific to your circumstances from your own legal, accounting, and tax advisors.

This material represents an assessment of the market environment as at a specific date; is subject to change; and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the funds or any issuer or security in particular.

This material contains general information only and does not take into account an individual’s financial circumstances. This information should not be relied upon as a primary basis for an investment decision. Rather, an assessment should be made as to whether the information is appropriate in individual circumstances and consideration should be given to talking to a financial advisor before making an investment decision.