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Living to 100, financially

How to prepare for a longer productive life

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Personal Finance

In a previous article ("Which stock is more suitable – Google or GE?" Feb. 6-19, 2015, NH Business Review), we offered reasons why investing in Google stock might be a good idea for some investors looking for long-term capital gains.

Interestingly, Google is quietly working on much more than online search and electronic information technology. It has invested hundreds of millions in molecular biotechnology and human genome mapping ventures that aim to extend the life spans of human beings into the hundreds of years. It is focusing on companies that develop ways to slow aging, reverse disease and improve long-term health, extending longevity.

As Bill Maris, president and managing partner of Google Ventures, says in a Bloomberg Business article, "Twenty years ago, without genomics, you could only treat cancer with a poison. That's really different from, 'We can cure your cancer by reverse-engineering a stem cell.' You can now legitimately invest in a company that could cure cancer."

There's an interesting segue here about planning to live to 100 and beyond – financially speaking. The facts show that life expectancy in the United States has risen to an all-time high – 81.2 years for women and 76.4 years for men. Many of us will live to be much older, and more centenarians are celebrating birthdays beyond 100. Staying healthy longer offers us so much more opportunity to enjoy life. Clearly, planning financially to live to 100 requires a long-term, dedicated investment strategy.

Today's retirement investors face challenges that prior generations didn't confront. Interest rates remain at historic lows, so retirees cannot simply invest their money into interest-bearing accounts to generate the income they need to retire. The stock market has been experiencing high levels of volatility, which frightens many people away from investing. These challenges, on top of the extended life expectancy we are enjoying, creates the need to develop a plan that can last for many decades.For some, retirement will last 40 or more years.

The biggest risk when planning for a portfolio to last for many decades is the risk of inflation. Even if inflation remains low, the value of one's money erodes each year. In other words, the cost of living increases every year.

Today's retirees can rely on Social Security payments that adjust for inflation every year. Some pensions adjust for inflation, but most do not. Long-term bonds pay a fixed income that does not adjust for inflation. The living benefits on annuity policies don't adjust for inflation either. Ideally, the income being generated by investments should grow at or above the rate of inflation to ensure one's standard of living is maintained.

The one investment that has a great long-term history of generating income that increases at or above the rate of inflation is an investment in a portfolio of dividend-paying stocks.

Many household names including AT&T, McDonald's, Chevron, Caterpillar, Coca-Cola, Exxon, Procter & Gamble, Johnson & Johnson, Clorox, Wal-Mart, Walgreens, Lowe's, Nordstrom, and Sherwin-Williams have been paying dividends for at least the past 20 years, and for each of those years have managed to raise their dividends each and every year during that twenty year period. This record of growing the income to their shareholders is no guarantee of future payments, but is a good indicator for predictable income that will likely grow.

In constructing a portfolio to achieve goals that are expected to last decades, it is important to diversify across the major industry groups and to diversify among leading companies in those industries. The decision is not to simply pick the highest dividend payer in each industry, but to pick the company that is most likely to continue paying their dividends and is expected to be able to grow that dividend over time.

We need to be prepared for a long and productive life. Financial planning that thinks ahead decades into the future is essential. NHBR

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