

---

## Great Expectations... Dashed

---

By Editor Test     Sun, Jul 1, 2012

---

*The founder of Sensible Financial in Waltham, Mass., blogged the following about lost inheritances to his clients. It's a message that any advisor and any set of clients might find useful.*

---

A recent *Wall Street Journal* [article](#) observes that the financial crisis and increasing longevity have combined to alter baby boomers' inheritance expectations dramatically.

Many parents suffered substantial losses in the 2007-2009 market crash. Many parents are living longer than they expected. Greater demands placed upon smaller parental resources are a recipe for smaller inheritances.

To add insult to injury, in some cases parental shortfalls are large enough that the children are called upon to help out: funds flow from children to parents rather than the other way around.

Every family that finds itself in this kind of situation is disappointed. Parents are unable to keep commitments they made at least to themselves, and perhaps to their children. Children who had been counting on an inheritance to pay for education for their children, to buy a nicer home, or to fund their own retirements have to make other plans.

Each family's situation is different. It is impossible to say just how each one developed. And, it would be extremely unfair to suggest that specific courses of action could have prevented these disappointments. Hindsight is famously 20/20. We have information now that the profiled families didn't have when they made their financial decisions.

However, today's parents, planning for their own retirements and for their own children's inheritances, can take steps to avoid similar disappointment in the future. Each step is very simple:

**Bet on your savings, not on the market.** If your retirement plan depends on excellent stock market performance, you are relying on a mechanism you cannot control. On the other hand, if your plan depends on saving enough, you are in charge.

**Don't underestimate how long you may live.** The article provides some statistics on longevity (how long people live). It's important to understand that estimates of life expectancy are averages. Roughly speaking, if life expectancy for a 65-year-old man is 85, half of men 65 will live beyond (in many cases, well beyond) 85. And, those averages may not apply to you. If, for example, you don't smoke, your life expectancy can be seven years longer than for someone who does. Checking out [www.livingto100.com](http://www.livingto100.com) is one way to get an objective perspective on your own situation.

**Convert some assets into income for life.** Single premium immediate annuities (SPIAs) can provide income you can't outlive. If the income is inflation-protected, you'll limit the risk that inflation will erode your purchasing power. (Important caveat - if you know your life expectancy is below average, perhaps due

to illness, lifetime income annuities are not a good choice). This is insurance against outliving your assets.

**Wait to begin receiving Social Security benefits.** Annual benefits starting at age 70 can be as much as 76% higher than starting at 62. There is an important sense in which this is your most attractive income annuity purchase opportunity - the price is better than for commercial annuities and the benefits are inflation-adjusted.

While life is uncertain, and nothing can guarantee success, incorporating these steps into your retirement planning will certainly improve your chances.

© 2012 Sensible Financial.