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Thinking about Time Horizons

When discussing financial planning and investing, we often discuss time horizons. One of our primary goals in such a discussion is to match investment risk and opportunity to the time period under consideration. The further away a financial goal is, the more likely we are to encounter difficult markets and recessions along the way. The good news is that there is also more time available to catch up, if necessary.

Here are some of the most important time horizons we tend to consider:

Time to Retirement

This time period represents the accumulation phase. The length of this period is different for everyone. Based on our experience, many people plan to retire in the age range of 65-70. This age range often aligns with people's plans to take their social security distributions. Once someone has set their retirement age, this time period becomes definitive.

Time in Retirement

This time period represents the distribution phase. This is the period when someone who has been saving during their working life begins to access some or all of those saved assets to fund their current household budget. Calculating the length this time period is difficult.

According to the IRS's 2023 single life table (see Footnote 1), a 65-year-old can expect, on average, to live approximately 23 more years. For a married couple who are each 65, the expectancy is that one of couple could live for another 28. These are averages, of course. The significant consideration for planning is that this time period could be nearly as long as the working period.

Legacy Planning

The time horizon for legacy planning is measured across lifetimes. The time period crosses generations. The considerations of short-term market disruptions and the necessity to maintain long-term purchasing power become even more important to balance.

Long-term Considerations

The US has experienced a recession approximately every 6.5 years since World War II (see Footnote 2). Consequently, an investor should expect to experience them during the accumulation phase. More importantly, a retiree should expect to experience three or more while living off of their investments.

Each person, couple, or family will need to address these risks in their own unique way. The tools available to manage these risks will similarly vary from investor to investor. These tools could be self-funded liquidity pools, lines of credit, and insurance structures. We feel that seeking to structure our clients' portfolios considering both the potential short-term and long-term circumstances can help to plan for the unknowns the future holds.

Footnotes:

https://www.irs.gov/publications/p590b#en_US_2022_publink100089977

https://www.kiplinger.com/slideshow/investing/t038-s001-recessions-10-facts-you-must-know/index.html#:~:text=Since%20the%20end%20of%20World,when%20the%20Pandemic%20Recession%20hit.

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