
MANAGING LONGER LIFESPANS AND LONGEVITY RISK WITH SIEGEL-WISDOMTREE MODEL PORTFOLIOS

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This article is relevant to financial professionals who are considering offering model portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these Model Portfolios.

Many individuals approaching retirement age share common goals as it pertains to their retirement investments:

- First and foremost, not running out of money
- Second, generating sufficient income and investment returns to support their lifestyle/level of consumption, and
- Lastly, leaving behind a legacy or meeting philanthropic goals beyond their lifetime.

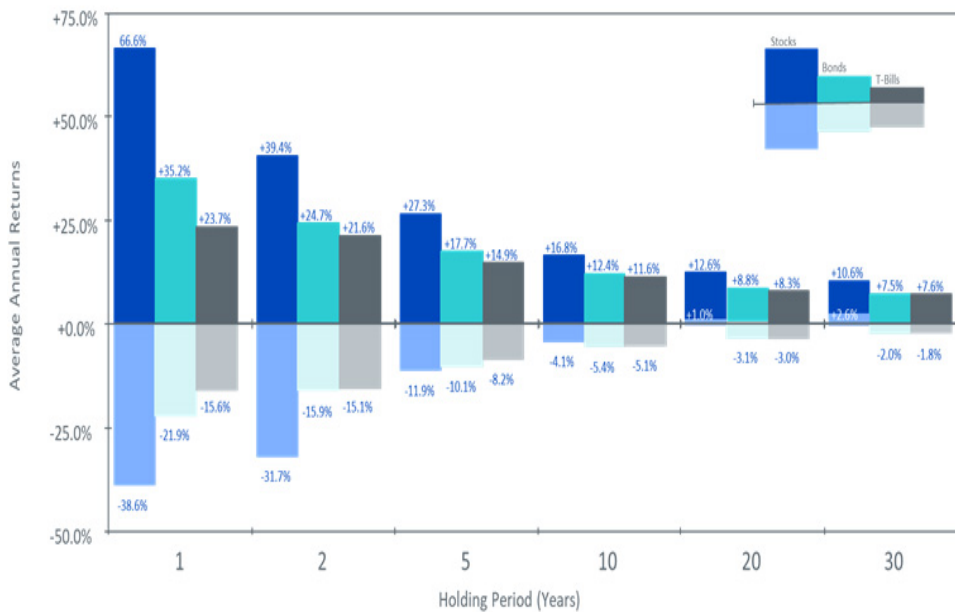
When it comes to managing these critical objectives, perhaps the most imperative decision investors will make is how they structure their retirement portfolio from a top-down asset class allocation perspective.

Traditionally, many advisors and investors have used the “60/40” approach, meaning having 60% of their portfolio in equities and 40% in fixed income.

One of the key takeaways from *Stocks for Long Run* regarding portfolio construction is that, for investors with longer time horizons, a larger percentage of their portfolio should be in equities. This is one of the key philosophical views that went into the design of the [Siegel-WisdomTree Longevity Model Portfolio](#), which has a 75% strategic allocation to equities.

While the short-term standard deviation of stocks is certainly greater than bonds, they are actually less risky than bonds or t-bills if you consider a holding period beyond 15-20 years.

Maximum and minimum returns for stocks, bonds and t-bills under various holding periods

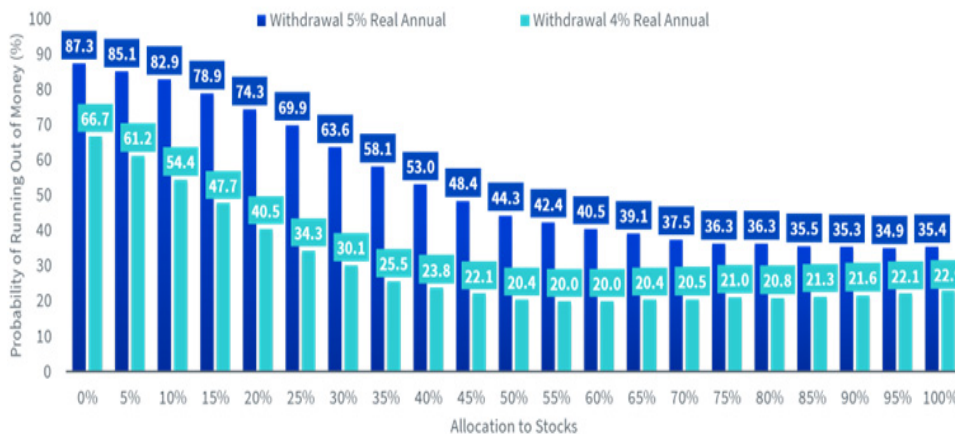


Source: Siegel, Jeremy, Stocks for the Long Run (2014), with updates to 2021. Using data from 1802–2020. Copyright Jeremy J. Siegel. T-bill history extended by analysis of interest rates, default risk and term structures of comparable bonds with available information.

Furthermore, a bias toward equities can actually make for a safer long-term portfolio, as stocks have historically been far more effective at protecting the purchasing power of a portfolio through retirement.

The simulation below depicts the probability of a portfolio running out of money using both 4% and 5% real annual withdrawal rates. The allocation to stocks in each portfolio ranges from 0% to 100%, increasing from left to right.

Probability of running out of money after 30 years under various allocations to equities vs. bonds



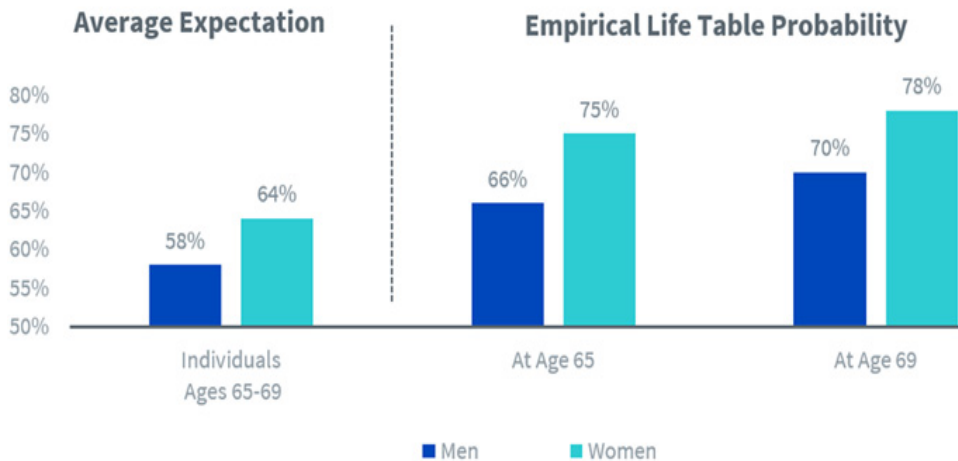
Source: WisdomTree, as of 3/31/24. Assumptions: Real Stock Return (6%) and Real Bond Return (1.5%). Starting with \$1 million, annual \$50,000 (inflation adjusted) withdrawal for 30 years. Monte Carlo Simulation Bootstrap each year without replacement, 1,000 simulations for each equity/bond combinations. U.S. stock, long bond and inflation returns from 1926–2022, with median adjusted with forward looking capital market assumptions. Forward looking real stock return assumption is 6%, and real long bond return assumption is 1.5%. This is achieved by subtracting 0.70243% from bootstrapped stock return for any given year, and 0.86797% from bootstrapped long-term bond return. No taxes, fees or expenses were taken into account for the illustration which would change the outcome. It is not possible to invest in an Index.

In this analysis, increasing a portfolio’s allocation to equities beyond 60% does not have a significant impact on shortfall risk. Therefore, for investors balancing shortfall risk with the realities of longer lifespans and the desire to leave a legacy, a higher allocation to stocks may be justified.

Research suggests that many investors may not have a realistic appreciation for longevity risk, or the risk of outliving their investments and sources of retirement income.

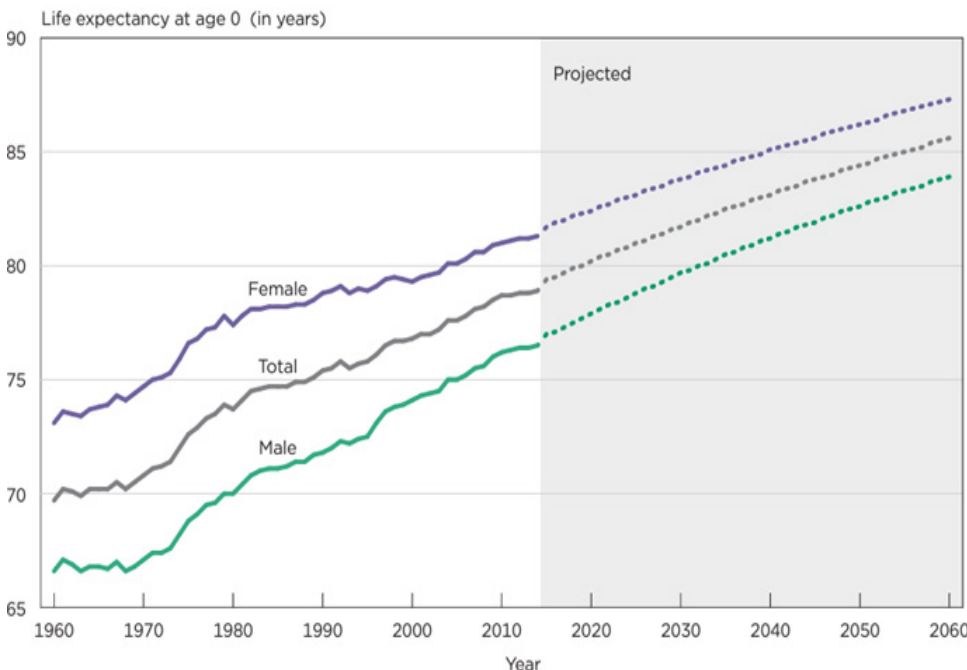
The chart below from the 2022 study by the Center for Retirement Research at Boston College shows that less than 60% of men and only 64% of women aged 65–69 expected that they would live to age 80. However, empirical evidence suggests that probability is much higher—closer to 70% for men and 80% for women.

Probability of living to age 80 for individuals aged 65–90, 65 and 69



Furthermore, experts anticipate that the historical trend of longer human lifespans will continue over the next several decades.

Historical and Projected Life Expectancy for the Total U.S. Population at Birth 1960–2060



Source: U.S. Census Bureau, 2017 National Population Projections, 2015–2060 and National Center for Health Statistics Life Tables, 1960–2014.

As advances in science and medicine are constantly improving healthcare, there is always a chance for further breakthroughs in human longevity.

In *Stocks for the Long Run*, Professor Jeremy Siegel writes that, “investors with longer

investment horizons should hold a higher percentage of stocks compared to those with shorter horizons.” We believe that many investors might have a longer time horizon than even they realize.

Therefore, we encourage investors and their advisors to think long term when setting the strategic asset allocation of their retirement portfolios.

For investors seeking a model portfolio that blends the need for current income generation and improved longevity profiles of traditional allocations, we believe the Siegel-WisdomTree Longevity Model Portfolio may be worth further exploration on our [Model Portfolio Adoption Center](#).

Watch this video for more information on the Siegel Model Portfolios.

Important Risks Related to this Article

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Jeremy Siegel serves as Senior Economist to WisdomTree, Inc., and its subsidiary,

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Related Blogs

+ [Investing “for the Long Run” with the Siegel-WisdomTree Model Portfolios](#)

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DEFINITIONS

60/40 Portfolio: A portfolio of 60% equities and 40% fixed income.