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Welcome to Asset TV. I'm Tamara Laine. Today I'm joined by Joseph Montgomery, head of the Optimal Service Group of Wells Fargo Advisors. Joe, thank you for joining me.

Well, thank you.

It's a certainty in life, but planning for it is evolving-- the risk of not dying. People are outliving their money, and they're not planning appropriately for it. Tell me what's going on with this. This is something that you're highlighting.

Right. Well, you're so right. Longevity risk is probably the biggest risk that people aren't thinking about. They are in some ways because everybody is worried about their retirement, but they're really not aware how long they might live.

And so tell me about that. Retirement means something different to everybody.

Sure.

What is your definition of retirement?

Well, if you would accept-- I'm sure there are many definitions, but if you would accept a definition of retirement is being able to do what you would like to do-- play tennis all day, play golf, sit on your boat, sip a cocktail, read a book. Those are all definitions. I think some people might say, yeah, I would love to do that. That would be a good retirement. But if you truly just focus on being able to do what you would like to do, that's why people like Tom Brady are still playing football. He's retired, but he's 41 years old.

Now, I don't think based on what little I know about it Tom is going to have a real problem in retirement. But for the rest of us, we need to think about that, about what that really means. What will we be doing? Will we be doing a second career if we live longer?

So if somebody told you you had roughly another third to your life-- so you would wonder about, am I going to be doing the same thing? Do I want to be doing the same thing? And then that all falls back on what we do in the financial planning, the investment planning world, trying to figure out how to make that money last for their retirement, whatever it may be.

And so really what this comes down to is people are retiring at the same age that they've traditionally been retiring at-- what, around 65 is the average-- but they're living to be over 100. And the difference is not only are they living to be over 100, they're healthy while they're doing that. So is there anything different that goes into financial planning when you retire, you're healthy, you maybe want to travel, you're active?

Great question. Travel, particularly-- where people have budgeted to travel for a certain length of their life in retirement. And then, OK, I probably won't do it. But if you realize in this year, one of the actuarial tables I was looking at indicates that a female, because they live longer than males-- so good for you. So what happens is a female born this year has a 50/50 chance to be alive in the 22nd century. That is a phenomenal thing to think about when you wrap your mind around it.

Now, that's 81. That's what they move the table to. But 81 for most of us just doesn't resonate. But at least with me, when I think 22nd century-- yes, I know Buck Rogers was the 25th century. But 22nd seems pretty far out there.

Well, so how should investors and advisors be changing their thinking around this longevity that we're experiencing?

Well, there's both the money side and the personal side. And the personal will affect the money side. So on a personal side, we're all going to be looking at, is what I'm doing today what I will be doing 10 years from now? Will I be doing it 20 years from now?

You've already seen a little bit of a shift in the way people in the 18-to-30 age bracket are handling themselves career wise. They may have a couple, two or three jobs much more rapidly than most others probably did in the ancient days, prehistoric days when I was coming up.

So you have that on the professional side, and that all leads to, what are we going to be doing with the money? So we start to plan more for-- maybe in your next career, you want to do something that is more philanthropic than working on Wall Street. So you want to have the money to carry you through that. But also realize, if you live to be 100 or 110 or 120, there's a good likelihood you'll run out of money if you're not appropriately allocated.

That's what ties back to what we really do for a living, which is the investment planning. And then you get into educating people on all of the tools that are out there now that a lot of these weren't even available to people 15 years ago. On your programs, you have all kinds of tools and instruments, but knowing how to use them, we would like to think that's what our job is, how to apply those.

And you mentioned that diversifying was really important.

Yes.

Can you explain that further?

Sure. If you look at the statistics, if you run back over 20 years, the S&P 500 has returned 5.6%, something like that. The standard deviation is 14 point something. If you look at a reasonably well allocated model, which has a lot broader diversification, you can get a slightly better return in the 6.4%, 6.5% range historically. These are just numbers. But the most important thing is the standard deviation goes down about into a single digit number from 14.

So that's what's been missing, I think, for a lot of people in thinking about what risk really means, but they still need to figure out how to get the return, and that's why diversification really matters. You have a better shot at the return, but you're not taking as much volatility on the assets-- very hard to fully appreciate in a period like the last 10 years when all you really need to do is own the S&P 500 and go home because it just worked. But history says that will end. Nobody knows when. Nobody knows how. You just know it will.

So traditionally, as we said earlier, the only things that are certain in life are death and taxes. We know we're going to be paying taxes, but we don't know when death's going to come. So with that in mind, how are not only the individuals but institutions-- you work with institutions-- looking at the risk analysis of this?

Well, a good way-- I'm glad you mentioned the institutions because most of us are going to need to think of ourselves as institutions. Institutions design-- endowments, insurance companies, state governments-- they're all there trying to be there in perpetuity if they do it well. And generally you'll find those are very well diversified and they have set objectives to be there in perpetuity.

So I think it was a wise old man said, being of sound mind, I spent it all. It's a good theory, except, unless you know the day you're going to check out, you can't really do that. You can't know. So you need to plan to be longer. So when we talk about death, we don't really know when that's going to occur.

And it used to be a dwindling going on. You didn't travel. You didn't go anywhere. It was more difficult to go about. Most of your money got spent on medical. So a couple of things are happening. We're healthier, and we're going to live longer. That means we're probably going to come closer to spending closer to what we're doing now in whatever our real retirement is.

So you've heard people say, well, you probably only need 70% of what you were earning after tax. The reality of it is you're probably going to need 100% because it's going to go on and on, and eventually we will have inflation.

And since you work with institutions, how is longevity planning really transferring over to individuals?

Yeah, well, I think they see it-- I should say, individuals see what institutions do. And I think, if we're honest about it, most people, if we're honest with ourselves, we kind of are envious of what those institutions have available to them. Now, a lot of that is due with the cost structure. They benefit from that. But also they have a lot of asset classes that the average investor hasn't accessed before.

So if you go look at things like the Wells Fargo Investment Institute and the broad work they've done, these asset classes are much, much broader than they were 15 or 20 years ago so that you can look at things like emerging markets, emerging market debt, emerging market debt and local currency, emerging market debt dollar denominated. Those are just examples of tools that are in most portfolios today that are run by larger institutions, and they're becoming much more prevalent in individual portfolios.

Is there anything that you think individual investors need to know that they're not paying attention to right now?

Well--

I mean, it's--

There' s always something. I think they need to think more about their health, I would say, because, whether they're participating in marathons or just trying to make it down to the mailbox, you need to think about how your health is going to impact your life and the spending of your money.

We tend to separate those except when we think about the expense of our health when it's bad, and we probably ought to think a little bit more about it in regard to what am I doing with my health, and how is that going to impact my future financially, so you can live the kind of life you want to live, so you can be a little more progressive with your thinking. I wouldn't say aggressive. I would just say progressive.

Well, it's a conversation that not everybody wants to have, but it's an important one, so I'm very glad that you were here to give us insight on it. Thank you for joining me.

Well, thank you for having me.

That's all for now from our studios in New York. I'm Tamara Laine. This is Asset TV. Thank you for watching.