Outliers can change our lives.

The pesky outposts of statistical warriors are situated at the far reaches of normality. When they breach boundaries, lives change, sometimes forever.

> *Why do we keep focusing on the minutiae, not the possible significant large events, in spite of the obvious evidence of their huge influence? Nassim Taleb, The Black Swan.*

Yes, the outliers. Consider them unwanted houseguests, the nascent *Fredo Corleones of the statistical world.* Their impacts are minimized by the academics, social scientists, and Wall Street 'know-it-all' pundits who believe most American households have recovered from the Great Recession. With straight faces, they bloviate to convince us that the post-pandemic economy (whatever that is) will return to 'normal' by the second half of the year. As Taleb connotes - 'duration blindness is quite a widespread disease.' We believe impactful adverse events are predictable in their duration when history shows us they are far from it. The so-called intellectuals laugh defiantly in the face of considerable impact, low probability episodes that destroy the health and wealth of the masses because they're able to paper over their outliers with massive wealth and the obeisance of the mainstream media, financial and otherwise.

> *Outliers just don't get any respect but they demand it! In the face of household financial fragility, we all must think differently about risk mitigation, break away from the financial tenets designed to keep us enslaved in debt, and understand that on occasion, Fredo Corleone could possibly get us killed! (figuratively of course). Except in Michael Corleone's case, it was literal... And close!*

Watch for Black Swans!

Taleb touts 'Black Swans' as events outside the lines of normal expectations. Nothing in the past, especially the recent history, points to their emergence. Yet, when these pesky statistical nightmares decide to take over from the standard or bell curve of normal-probability territory, all hell breaks loose. Although outliers are rare, they propel with enough flame and brimstone to turn our finances and, in some cases our lives, into cinders. I spent the Texas winter apocalypse re-reading Taleb's classic work by the warm white light of a fully-charged Kindle. For those who haven't picked it up, The Black Swan: Second Edition: The Impact of the Highly Improbable: With a new section on robustness and fragility by Nassim Taleb, the paperback edition is worth every bit of $12 bucks. What you'll learn about our illusion of understanding (especially in a world littered with social media) is worth ten times the book's price. You see, society (social media participants, especially) suffers from an incredible illusory gift. An electronic form of cerebral foreplay where most believe the world is understandable and more predictable than it is. In other words, users consider their opinions as gospel; they also overvalue factual information yet hold little regard for the 'gray' that clouds every fact. I usually re-read my highlighted version of The Black Swan later in the year. This time, it kept me warm (my brain cells anyway) during one of the coldest Februarys on record for Texas. Re-reading Taleb keeps me grounded and humbled by uncommon events that seemingly occur every decade.

Most pundits discount the ongoing damage of outliers.

The pundits *still* stomp their feet and jump **Evel Knievel** canyon-leaps of defiance. They continue to tell us that outliers occur every 100, 1,000, 5,000 years (pick a number). Why people listen to these jokers is beyond me. The masses *hope* they're correct. That way, we never need to prepare because there's ZERO excitement in preparation. It's too long term, too nebulous, takes too much discipline. Blah, blah, blah. So, with that, I share with readers the outliers, the frontier fighters you most likely believe never will breach your main personal, financial boundaries until they do. Here are two of four outlier statements that will change your life (part 2 next week):

I won't live long enough to be old.

I hear this one often. I'm grudgingly prepared for the outlier even though I believe I won't live long enough to be elderly. If you're one of those people who also think they won't live long enough to need income beyond what mortality tables indicate, ask yourself this question (like I do when I think I know everything): *What if I'm wrong?* Longevity or living beyond the confines of mortality tables is a risk. Most likely, you'll require additional guaranteed income to supplement Social Security to generate lifetime retirement cash flow. As Danny and I say on our radio hour - "Income is the lifeblood of retirement." Growth is a secondary goal, at least over the rate of inflation of your household. However, income is everything. We have clients who own little in variable assets like stocks and bonds yet live comfortably because they: 1. **Have pensions (what the heck are those?)** 2. **Execute smart Social Security claiming strategies.** As I've written in the past, using income annuities to replace bonds in a diversified portfolio can be very useful, whether it's laddering single-premium-immediate annuities or adding income riders to fixed indexed annuities. Low-fee income annuities (*American College Professor Dr. Wade Pfau refers to them as the term insurance of the annuity world)* provide a predictable stream of income that can outlast the income received from bonds currently at historically low rates. SPIAs are splendidly simple ? Provide a life insurance company a lump sum, and they pay you or you and a spouse for life. That?s it. I consider SPIAs a formidable replacement for the pension your employer no longer provides.

Why allocate a portion of your portfolio to lifetime income vehicles?

I?ll list them in the order of importance: ***Above-average life expectancies***. *On average, American males live to 76.1 years; females add five years to 81.1. Suppose you or your and spouse have a family history of longevity and enjoy excellent health along with life-prolonging habits like exercise and a healthy diet. In that case, an SPIA may be a viable addition to a traditional stock and bond portfolio.* ***Retirement plan survival deficiency***. *Life has a way of altering good financial intentions. If lucky, you have a solid 20 years to save uninterrupted. Along that path may come unexpected life changes like divorce, a major illness, job loss, and let?s not forget the portfolio-busting bear markets or worse.   If working longer, saving more, part-time employment in retirement, and smart Social Security decisions don?t dramatically improve the probability of financial plan success, then consider an SPIA to complement Social Security so that your household never runs out of money.* ***A legacy intent.*** *Studies indicate that purchasing an inflation-indexed SPIA at retirement reduces* *portfolio depletion and allows for a larger inheritance for those who believe leaving a legacy to children and grandchildren is an important goal.* You can add income riders or addendums to FIAs to convert them to income annuities deferred to some period in the future, usually ten years or longer. Riders add ongoing annual costs to annuities, so complete formal financial planning before considering guaranteed income riders to determine whether there?s a household retirement funding shortfall.

An RIA rule:

> *If your investment portfolio has a greater than 30% probability of depletion in retirement before you and your spouse run out of time on the planet, annuitizing a portion of retirement assets should be considered along with a plan to maximize Social Security benefits.*

Also, let me share with you what I consider *"retirement nirvana."* That's when all your fixed retirement expenses or needs get covered from the income you and your spouse cannot outlive. What a relief. No worry about market cycles (more on that later).

Be careful with your Social Security claiming decision!

Also, don't minimize the importance of Social Security. Forget the emotional voice in your head that advises - *"I need to get out of the system what I put into it.*" That kind of financial myopia will shortchange you and, more than likely, a surviving non-working spouse. Break it down: Social Security is an inflation-adjusted annuity! And what are annuities supposed to do? Provide income for life. So, re-think it. Consider Social Security a *consumption* asset, not a portfolio investment. Like a fire, you seek it to be the hottest it can burn when the greatest warmth is required. After you're gone, who cares if the fire dies too? Just in case I do live longer, I'd be thankful to have as much income coming in as possible. That's why we suggest, in most cases, that recipients wait until age 70 to claim benefits.

What about reverse mortgages?

For those with a majority of their wealth in primary residences, home equity conversion mortgages may be employed to generate 'annuity' payments from a portion of home equity. The horror stories about these products are overblown and aged. The most astute of planners and academics study and understand how those who seek to age in place, incorporating the equity from a primary residence in a retirement income strategy or as a method to meet long-term care costs, can no longer be ignored. Those who talk down these products speak out of lack of knowledge and fall easily for pervasive false narratives. Reverse mortgages have several layers of costs (nothing like they were in the past), and it pays for consumers to shop around for the best deals. To qualify for a reverse mortgage, the homeowner must be 62, the home must be a primary residence, and the debt limited to mortgage debt.

A reverse mortgage line of credit can help!

One of the smartest strategies is to establish a reverse mortgage line of credit at age 62, leave it untapped and allowed to grow along with the value of the home. The line can get tapped for long-term care expenses. Also, instead of a credit line, qualified homeowners can begin tenure payments, a lifetime income strategy as long as they remain in a home, maintain it, and pay property taxes. In years where portfolios are down, the reverse mortgage line can be used for income, thus buying time for the portfolio to recover. Once assets recover, you can use rebalancing proceeds or gains to pay back the reverse mortgage loan, consequently restoring the credit line. Our planning software allows our team to consider a reverse mortgage in the analysis. Those plans have a high probability of success. We explain that income is as necessary as water when it comes to retirement. For many retirees, converting a home's glacier into the water of income using a reverse mortgage will be required for retirement liquidity survival. American College Professor Wade Pfau and Bob French, CFA, are thought leaders on reverse mortgage education and have created the best reverse mortgage calculator I?ve studied. To access the calculator and invaluable analysis of reverse mortgages, click here.

My kids will take care of me in my old age!

Many people flippantly assume their children will be their caregivers in the case of a long-term care episode (without even discussing the topic with them!) Or they don't plan for such an outlier because it could never happen to them.' *Remember - only one outlier can change everything!* People tend to avoid the topic (outlier) of long-term care defined as financial and caregiver resources required to perform daily activities such as bathing and dressing. Services range from temporary home health services to full-time care through assisted living or memory care. At RIA, we find that investors are hesitant to confront this topic. It?s understandable. After all, the mitigation of long-term care risk is expensive. People barely save enough for retirement, overall. Imagine planning for the possible additional six-figure burden of long-term care services.

Long-term care insurance can be confusing.

Also, consumers don?t understand how coverage works, premiums can skyrocket every few years, break constrained budgets, and insurance underwriting can be challenging. Notably, over 30% of those who apply for traditional long-term care coverage get rejected for health reasons. ' Realistically, after age 62, premiums become cost-prohibitive for consumers. It?s in their mid-sixties we find people scramble to put together some patchwork plan. We call long-term care the ?financial elephant in the room.? You can try to lift it and move it to another area of your financial house; however, wherever you go, there is! As we often discuss on the radio, long-term care expenses are the greatest threat to a secure retirement. Based on a recent study, over 53% of Boomers are confident about managing long-term care costs, yet the majority have nothing set aside. **The results lead me to conclude there?s a dangerous and robust case of DENIAL going on. Is there more to the story? Since 50% of middle-income Boomers maintain less than $5,000 in emergency reserves, saving for retirement AND retirement care is most likely too burdensome.**

Dementia. One of the greatest risks.

One of the most significant concerns is the risk mitigation that accompanies a long-term illness such as dementia. Those who suffer can remain physically healthy for years yet require 24-hour surveillance. Think about the financial and human resources costs for such a disease. It's tough to fathom. According to ALZ. Org, the number of seniors living with Alzheimer's is increasing rapidly. Currently, an estimated 5.8 million Americans age 65 and older live with the disease. By 2050, a projected 13.8 million people over 65 will be dealing with Alzheimer's dementia. Family members and unpaid caregivers provide a staggering $244 billion worth of care. Keep in mind, almost two-thirds of Americans with Alzheimer's are women.

The cost and timing of long-term care insurance.

I?m not going to lie. Long-term care insurance isn?t cheap. According to the American Association for Long-Term Care Insurance, the best age to apply is in your mid-fifties. To obtain coverage, the current condition of your health matters, or you may not qualify. Only 38% of those aged 60-69 qualify. Even if healthy, at a point in life, especially around the mid-sixties, premiums are known to be a household budget nightmare. For example, a couple both age 60 in a preferred health class can wind up paying close to $5,000 a year in premiums and will likely experience premium increases over time.

> **The number of insurance carriers is shrinking ? down to less than 12 from more than 100. Recently, Genworth, one of the heavy hitter providers of long-term care insurance temporarily suspended sales of traditional individual policies and an annuity product designed to provide income to cover long-term costs such as nursing home stays.**

If you?re astute enough to plan for retirement care and concerned about the impact of dual premiums on the household budget, including saving for other goals, work with a Certified Financial Planner• to create a scenario to consider at least partial coverage for the spouse with a greater probability of longevity. For example, on average, *women* outlive men by seven years. Also, close to two-thirds of Americans with Alzheimer's are *women*. Oh, and when it comes to the kids? I find it too painful to interrupt my daughter?s life and impact her physical, emotional, and financial health by providing long-term assistance to her dad.

The role of caregivers.

According to www.caregiver.org, 44 million Americans provide $37 billion hours of unpaid informal care for adult family members and friends with chronic illnesses and conditions. Women give over 75% of caregiving support. Caregiving roles will do nothing but blossom in importance as the 65+ age cohort doubles by 2030. There will be a tremendous negative impact, financial and emotional, on family caregivers who will possibly need to suspend employment, dramatically interrupt their own lives to assist loved ones who require assistance with daily living activities.

> **Parents should begin a dialogue with adult children to determine if or how they may become caregivers. Armed with information learned from discussion, I have helped children prepare for some form of caregiving for parents.**

An example.

A 47-year-old client has added financial support for parents as a specific needs-based goal in her plan; another recently purchased a larger one-story home with an additional and easily accessible bedroom and bath. Another has commenced building a granny pod on his property for his elderly (and still independent) mother. All these actions have taken place due to open, continuous dialogue with parents and siblings. Also, elder parents have been receptive to allocating financial resources to aid caregiver children. Siblings who reside too far away to provide day-to-day support have been willing to offer financial support as well. A caregiver situation shouldn't corner children to change their lives. If you?re a parent, *ask* children if they?d be willing to provide care. Have a discussion. As an adult child, don?t be afraid to query parents about how they plan to cover long-term care expenses. **Outliers aren't pleasant.** Outliers aren't fun. Take it from the people in Texas. Outliers don't get much respect until their upon us. Shining a light into the dark corners of extreme probabilities can be the difference between survival and disaster. Do you know how to expose outliers? Showcase them front and center through holistic financial planning. A comprehensive financial plan outlines the risks one can absorb and risks to mitigate. Not even

Fredo could argue with such sage advice. In Part 2, I'll cover the outliers that can **derail your investment plan.**