Retirement Planning

Six Things That Can Blow Up Any Retirement Income Plan

Even some of the best laid plans take an unforeseen turn. For example, you can develop what seems to be a well thought out approach to funding your retirement, but then something could happen that blows it apart. While it may be fun to think of things that could positively impact retirement, such as winning the lottery, as a prudent investor you also should prepare for things that could negatively impact your plan. Here are some big ones:

Longevity: On average, per the Social Security Administration (SSA), a 65-year-old male has a life expectancy to age 83.2, and a 65-year-old female has a life expectancy to age 85.7. Personal and family health history are a huge factor, but the fact remains that none of us knows when we will die. It could spell financial disaster to underestimate this critical assumption. Use at least average life expectancy or consider slightly longer when projecting your income needs into the future. Consider income sources that can last an entire lifetime or could be turned on in later years to protect yourself from the risk of living longer than you expected.

Heath Care Costs: Health care costs are both a larger component to spending in retirement and increasing at a faster rate than overall inflation. These expenses include doctor expenses, prescription drugs, in-home care and nursing home expenses. This is a critical need and not all your costs are going to be covered by Medicare and any supplemental policies. Make sure you have a plan to cover the basic costs and then think about how you are going to cover larger items that may not be covered by your plan, like long term care. Invest the effort to try to stay healthy. See your doctor regularly. Eat well balanced meals. Remain socially and physically active.

Inflation: That cup of coffee doesn't cost what it used to 20 year ago, and neither does most anything else. You need to design a plan that ensures your income keeps up with inflation. While inflation has been low in recent years, that doesn't mean it will continue that way.

Moreover, typical inflation for senior spending items, like health care or prescription drugs, are inflating at a rate higher than "overall" inflation. Consequently, consider planning for an increase in your spending over time to keep up with inflation.

Market Gyrations: A market correction or changes to interest rates can wreak major havoc on retirement income planning. Most of us remember the impact on our portfolios of events like the 1987 crash, the tech bubble and the 2008 Great Recession. The market conditions just before and after retirement are most critical. Some liken favorable market conditions during these tender times as winning the retirement lottery. One way to address timing concerns is to build flexibility into your plan, so you can adjust your spending or retirement timing depending on prevailing market conditions. Another potential solution is to develop consistent income streams, such as an annuity, that will cover your essential needs.

Unexpected Expenses: Events such as divorce, a family emergency, a lawsuit, or a healthcare crisis are things that none of us wishes for, but we would do well to consider when thinking about our financial future. This is especially critical when we are no longer working and can't rely on salary to tide us over. Consider the impact these types of events might have on your financial situation and discuss potential solutions with your financial advisor. One approach is to try to cover catastrophic expenses with insurance or other strategies. Also, set aside an emergency fund in liquid assets, like cash, worth at least 6-12 months of living expenses as an additional protection against unforeseen events.

Fraud/Dementia: A MetLife study* found that seniors lose at least $2.9 billion each year to financial exploitation. Per the Alzheimer's Association, 1 in 3 seniors dies with Alzheimer's or another form of dementia. You need to plan for such an outcome. Failing to do so can be devastating to your finances. As we age, we may make poor judgements about who we trust. We may also get to a point where it is no longer prudent to manage our own finances. Proactively set up a plan to address these issues. Consider involving family members or other trusted individuals in your finances. Maybe even consider engaging a professional corporate trustee to help with finances. You may want to invite these people to your next financial advisor meeting or add them as a "trusted individual" on your account. Doing so allows your financial advisor to contact them should your advisor have concerns for you.

The old saying that by failing to prepare you are preparing to fail rings true. Get your financial affairs organized so that when some unforeseen act occurs your plan is prepared to address your needs. ■