7 RISKS TO YOUR RETIREMENT

And What You Can Do to Help Avoid Them

Learn about:

Living Too Long | Spending Principal | Underestimating Inflation
Counting on Stock Market Growth to Engineer Income
And more

7 Easy-to-Avoid Risks to Your Retirement

By David J. Scranton, CLU, ChFC, CFP®, CFA®, MSFS

Most of us look forward to retirement, imagining that we'll get to relax and enjoy activities we haven't had time for - such as traveling, reading, and exercising. However, as Baby Boomers and pre-retirees transition into full retirement, many don't realize they are crossing the threshold into an entirely new way of living, one in which they're increasingly vulnerable to risks that are unique to retirees.

After spending decades working towards a goal, too many retirement plans are set back by these 7 Easy-to-Avoid Risks.

Risk 1: Living Too Long

In the year 2000, there were 50,000 people who lived to be age 100 or older. By 2050, that number is expected to reach 1 million. With life expectancy rates higher than ever, it means that most people will need to plan for a longer retirement than they originally expected.

According to United Nations estimates, in 2015, the world was home to nearly half a million centenarians, those 100 years of age or older—with projections suggesting there will be 3.7 million people around the world who make it to age 100 in the year 2050. What if you are one of the lucky ones who gets to enjoy 35+ years in retirement? If you fail to plan for such a long retirement, you could end up outliving your retirement savings.

Risk 2: Spending Principal

Spending principal in retirement has never been a smart strategy, but with the average life expectancy rising, it's more of a slippery slope than ever before, especially for those in their early years of retirement.

To understand the potential dangers of spending principal, let's consider a 30-year retirement like a 30-year mortgage, only in reverse.

When you first start making mortgage payments, you're not paying back much principal at all. Instead, you're paying mostly interest and just a small amount of principal. As the years go on and the balance gets paid down, you pay a little less interest and a little more principal. The process continues until, after 30 years, your mortgage is paid off.

Now, imagine the same process in reverse. Take a pool of savings worth $1 million, generating 5% interest, or $50,000 per year. If you take even a little bit more than the $50,000 each year, just a small amount of your original principal, your $1 million in savings could be depleted within 30 years in much the same way that a mortgage is paid off.

Risk 3: Underestimating Inflation

It's no secret that inflation has the potential to eat away at the purchasing power of your money. The Bureau of Labor and Statistics estimates that the average rate of inflation is around 3-4%. What many people don't realize is that the rate of inflation on the things you'll need during retirement, like healthcare, can easily reach 6-10%. That means that if you retire today in your 60s, and live 30 years or more into retirement, you'll need 3-4 times the amount of income at the end of your retirement as you did on your first day of retirement.

Risk 4: Counting on Stock Market Growth to Engineer Income

Taking a look back through 200 years of stock market history, we see that the stock market works in cycles—with each full cycle taking about 35 years—containing both long-term secular bear and bull market cycles. What this means for you is that if you end up living anywhere near 30 years into retirement, you'll probably experience a bear market.

During those bear market years, you're either going to have to spend less or go down the slippery slope of spending principal (see Risk #2). It's actually even worse than just spending principal, because in the years the market is down, you would be forced to liquidate a greater number of shares to generate the same income needed to pay the bills. This is known as reverse dollar-cost averaging and is one of the biggest mistakes a retiree can make because you could end up cannibalizing the principal balance of your retirement savings, and potentially run out of money during the later years of your retirement.

Most people know that they should begin to de-risk as they approach retirement, and what you decide to leave in the stock market should be geared toward higher dividend-paying stocks.

Risk 5: Underestimating Healthcare Costs

A common mistake many retirees make when planning for retirement is to use the current prices for healthcare when they formulate their plan for handling these costs in the future. As we mentioned earlier, the rate of inflation on healthcare can easily reach 6-10%. This means that for those retiring in their 60s, although the current cost of full-time home healthcare can be about $200,000 per year, after accounting for inflation, that cost could easily reach $600,000 per year by the time you reach your 80s. This is assuming a 6% interest rate over a period of 20 years.

Risk 6: Changes in Policies for Government Programs

For the first time since 1982, Social Security recently had to dip into their trust fund to pay for the program. After 2034, the Social Security Administration projects that if nothing is done to reform the system, benefits will have to be reduced by 23%. The reality is, whether Social Security is reformed or not, most people would agree that Social Security needs to be considered in the context of other income-generating options, such as your 401(k) and IRA.

Risk 7: Unexpected Events

Life always tends to throw us curveballs, but with a little pre-planning, Baby Boomers can prepare themselves for whatever lies ahead. Here are a few unexpected events that have been known to wreak havoc on people's retirement plans.

- **A Reduction in Income from the Loss of Spouse -** A well-thought-out Estate Plan can help you avoid unnecessary taxes, probate fees, and the stress that can come with these types of problems. By taking the time to create a plan now, you'll save yourself, or your surviving spouse, from undue stress in what will already be an extremely difficult situation.
- **Increasing Long-Term Care Costs -** As we mentioned earlier, inflation could easily cause the price of long-term care to increase significantly by the time you'll need it. A qualified financial advisor who specializes in handling the complexities of planning and saving for retirement can help you formulate a plan for such events.
- **Caring for Elderly Parents, Dependent Children, or Grandchildren -** Modern family life has created a "Sandwich Generation" of retirees who are picking up the responsibly of caring for their elderly parents, while also caring for their own grown children and grandchildren. Instead of spending their "golden years" enjoying the activities they had planned, many retirees find themselves taking on the extra financial and emotional burdens of supporting their grown children financially and caring for their elderly parents. This is a tough situation for all involved, with no easy answers.

One possible solution is to work with your parents ahead of time to make sure they have the proper long-term care insurance in place to help ease the burden when the time comes. When it comes to helping your grown children, you should only help them as much as you can, without jeopardizing your own financial future.

Financial Advisors Who Specialize in Investing for Income Can Help to Ensure Their Clients' Smooth Transition into Retirement

Goodman Green Wealth Management specializes in the Universe of Income Generating Strategies. Americans born in or before 1966-"The Income Generation"- can help establish a renewable source of income they can count on throughout retirement, while trying to preserve the value of their original investment.

For additional information, feel free to call us on our main line at **(312) 586-7373**, or visit our website: **GoodmanGreen**.com.

Investment Advisory Services offered through Sound Income Strategies, LLC, an SEC Registered Investment Advisory Firm. Goodman Green Wealth Management and Sound Income Strategies, LLC are not associated entities.