BEST-LAID PLANS: WHAT CAN DERAIL RETIREMENT?

Some people dream their whole lives about retiring, while others say they want to work forever. Unfortunately, many who want to retire can't, while some who planned to keep working find themselves mentally or physically unable. There's no way to know for sure what will happen, but you can plan by envisioning the lifestyle you want and building a retirement portfolio in accordance with that goal. There are also strategies you can deploy to help you protect your retirement income from unforeseen expenses capable of derailing your dreams.

Overview

We often fall into a trap where we think we have all the bases covered. Take retirement planning, for example. You can plan for the lifestyle you want. You can plan for the income you need. You can even stash away extra funds for unexpected expenses retirees typically encounter. But can you truly plan for every variable?

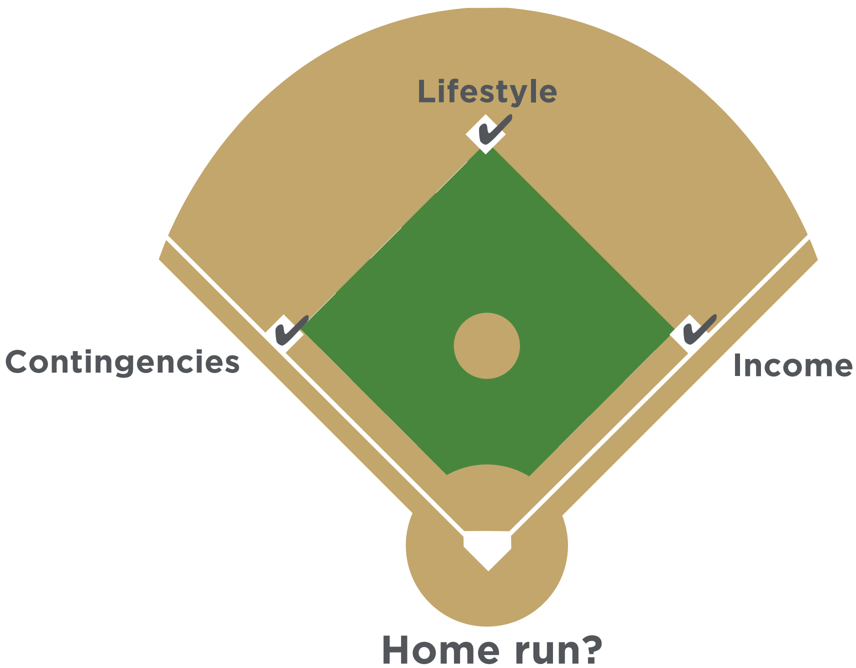
There are many threats than can derail even the most solid retirement plan. Here are three of the most common:

1. Underestimating income needs
2. Withdrawing more money than you should
3. Overexposure to market risk

Should your retirement plan misfire on any of these fronts, you could outlive your savings.

Piecing together an accurate retirement plan is a little like putting together a puzzle without having the finished picture to refer to: You don't know if you've got it right until you get to the end.

Too often, people don't realize they missed a base until they're rounding their way to home plate.



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How to Save Enough Money

Last year, the LIMRA Secure Retirement Institute began recommending that the average healthy person plan on enough retirement income to last through their mid-90s — at a minimum.[1] For many people, that's more than 30 years in retirement, which could be even longer than the number of years worked. Planning for an additional 30 years of income after you've stopped earning a paycheck requires disciplined saving and successful investing.

Let's say an investor does all of that right. In the early stages of developing a retirement plan, he or she may invest 100 percent of funds in equities. That might have been appropriate at the time, but as retirement inches closer, a more conservative approach is typically necessary. After all, people want to retire with the maximum savings possible; they don't want to suffer investment losses near the retirement date.

To illustrate this point, note that investors lost about 25 percent of portfolio market value during the 2008 recession.[2] For those in or on the brink of retirement, those losses were heartbreaking and put a wrench in plans.

If preserving a high level of savings is one of your financial goals, the first step to consider is choosing an investment allocation strategy appropriate for your timeline. Work with an experienced financial professional to adjust your allocation as you near retirement to keep your investments aligned with the risk tolerance level you're comfortable with to support your retirement lifestyle.

How to Make That Money Last

Even if they have successfully built wealth during their working years, retirees can still stumble if their withdrawal rate is off base. It's important to adjust the investment mix to reflect a change from the accumulation phase to distribution. In other words, once you have built up a substantial nest egg, it needs to be paid out in a manner that will last throughout your retirement.

That could mean repositioning assets from growth-oriented to income-oriented vehicles. While retirement accounts such as employer-sponsored 401(k)s and IRAs can be excellent growth vehicles, they are also impacted by market fluctuation. That means money remaining in the account during the withdrawal stage could still be lost as a result of poor market performance, which would deplete a nest egg faster than anticipated.

Other threats to a retirement income plan are health care and long-term care costs, both of which can be exorbitantly expensive. According to a Fidelity Retirement Health Care Cost Estimate, a 65-year-old couple retiring this year can expect to spend approximately $245,000 on health care alone in retirement — nearly one-third higher than 12 years ago.[3]

To address these unknown expenses, some investors reposition a portion of their assets to insurance products, like fixed annuities and life insurance. Policies are available with features that can help provide for long-term or critical care expenses, an inflation hedge, and even growth opportunity without direct exposure to securities markets. These products also contain limitations and may be subject to qualifications you need to fully understand before making any purchasing decisions.

How to Live a Fulfilling Lifestyle

Retirement is a great time to live our values. Throughout our career and while raising a family, we may feel compelled to keep pace with the lifestyles our friends, neighbors and colleagues are living. The downside is we may buy a bigger house than necessary or take expensive vacations that don't bring the family closer together in the long run.

Retirement can be a time to right the ship. If you've always felt the house was too big, consider downsizing. If you want to travel, adjust your retirement income to accommodate the trips and activities you want to pursue. Also keep in mind you may not need an expensive country club membership if you would be just as happy hitting the links at a public golf course. The point is to right-size your lifestyle to match your budget, which doesn't mean you necessarily have to give up everything. You may be able to continuing doing what you love — just pay less to do it.

Remember that your retirement lifestyle is typically defined by how you spend your days. Revel in the fact that your time is truly yours — it isn't dominated by your parents, school or friends; it doesn't belong to your employer, clients or even your children — just yours. You can read great books, learn a foreign language, take a dance class … whatever you want. So as you plan for retirement income, consider ways you might offset expensive hobbies with more fulfilling ones. You do not have to do what you're expected to do anymore; you can do what you want.

Balance: You're an Expert

Ultimately, no one can plan for every threat or contingency they may face in retirement. However, if you're fortunate enough to get there, you've likely learned some powerful lessons along the way. Like how to be flexible when plans go awry; how to adapt when less money is coming into the household; and how to keep your spirits up through a run of bad luck. An important part of achieving retirement success is to balance your needs and wants against your income. It's a skill you've been practicing your entire life.

Go confidently in the direction of your dreams. Live the life you have imagined.

Henry David Thoreau

Final Thoughts

One of the most menacing threats to retirement is losing a spouse. Whether the spouse passes away, loses mental faculties or is physically debilitated — this circumstance inevitably will change your retirement income plan. Be sure to consider all of the potential ramifications should the disposition of either or both spouses change. It is not uncommon for one spouse to need care that costs a disproportionate amount and leaves a reduced income for the other one.

By the same token, spouses should discuss what each of them wants out of retirement. Once you get there, it can be tough to add income or wealth, so knowing what both partners expect at the outset can help keep surprises from upending a retirement plan.

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[1] LIMRA. Jan. 20, 2016. "When Planning for Retirement, 90 is the new 70." http://www.limra.com/posts/pr/industry_trends_blog/when_planning_for_retirement,_90_is_the_new_70.aspx. Accessed April 5, 2017.
[2] Teresa Ghilarducci. The Atlantic. Oct. 16, 2015. "The Recession Hurt Americans' Retirement Accounts More Than Anybody Knew." https://www.theatlantic.com/business/archive/2015/10/the-recession-hurt-americans-retirement-accounts-more-than-everyone-thought/410791/. Accessed April 5, 2017.
[3] Rodney Brooks. The Street. Jan. 15, 2017. "Biggest Threats to People Who Are Already Retired." https://www.thestreet.com/story/13953815/2/biggest-threats-to-people-who-are-already-retired.html. Accessed April 5, 2017.

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