5 Real Financial Risks You Could Face in Retirement

For many Americans, retirement is the largest expense that they will face in their lifetime, costing 2.5 times the price of an average home.[1] It's an expense that adults work and save for years to afford. As you enter retirement, you will likely transition from earning to spending. It's at this point-in-time when it's critical to develop a plan to protect the income for your needs in retirement and maximize the income for things that you want in retirement.

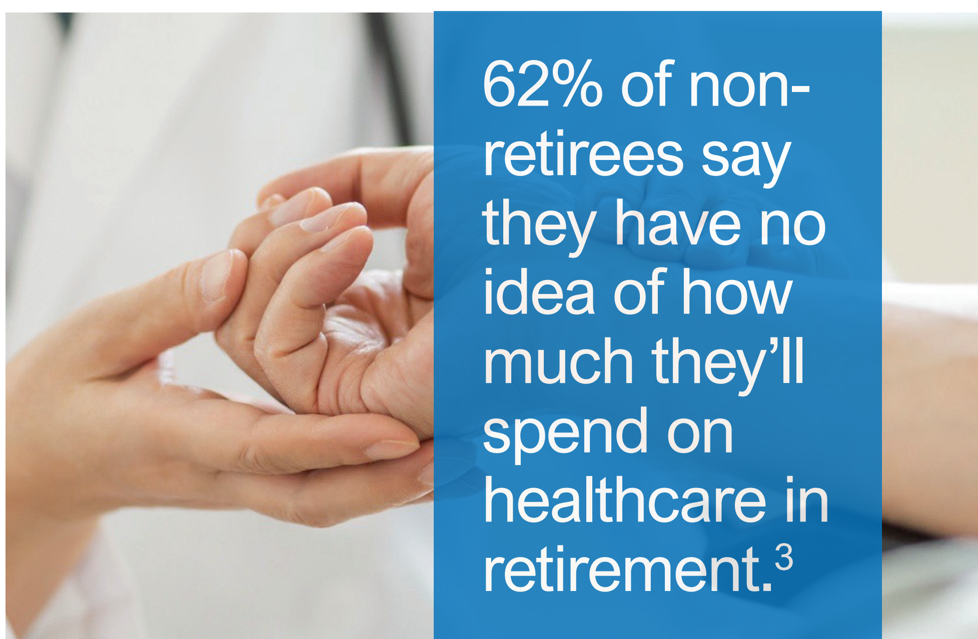
However, there are **five universal risks** that can have a significant impact on retirement success. While these risks affect just about everyone, the question is: **to what extent will they impact your retirement income?**

Risk #1: **Extended Longevity**

As the average life expectancy increases, so does the likelihood of needing Long-Term Care (LTC) in retirement. Yet, Americans underestimate the probability of needing LTC and the costs associated with it. According to the U.S. Department of Health & Human Services...

- **56% of Americans turning 65 today will develop a disability serious enough to require LTC.**
- **About 1 in 5 adults will have an LTC disability for more than 5 years.**
- **On average, an American turning 65 today will incur $137,800 in LTC costs.**
- **Families will pay about 59% of LTC costs out-of-pocket.[2]**

It's important to understand and evaluate all your options for affording Long-Term Care so that you can work to provide you and/or your family with adequate protection from these costs in advance of, and through retirement.

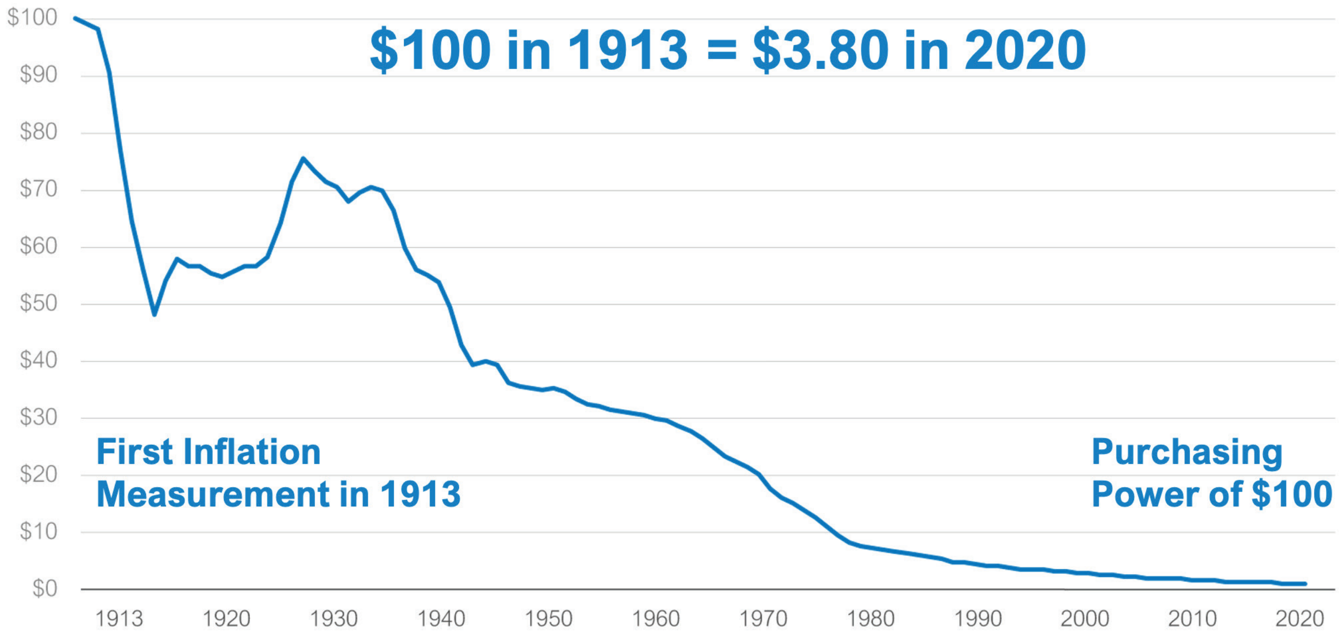


> 62% of non-retirees say they have no idea of how much they'll spend on healthcare in retirement.[3]

Risk #2: **Rising Inflation**

Inflation is often considered the silent risk to retirement income. Over time it can whittle away purchasing power, making everyday living harder to afford. In retirement, inflation — coupled with increased life expectancy — can quickly deplete one's savings. In the chart below, see how the value of $100 in 1913 has the purchasing power of a mere $3.80 in 2020.

Declining Purchasing Power of U.S. Dollar[4]

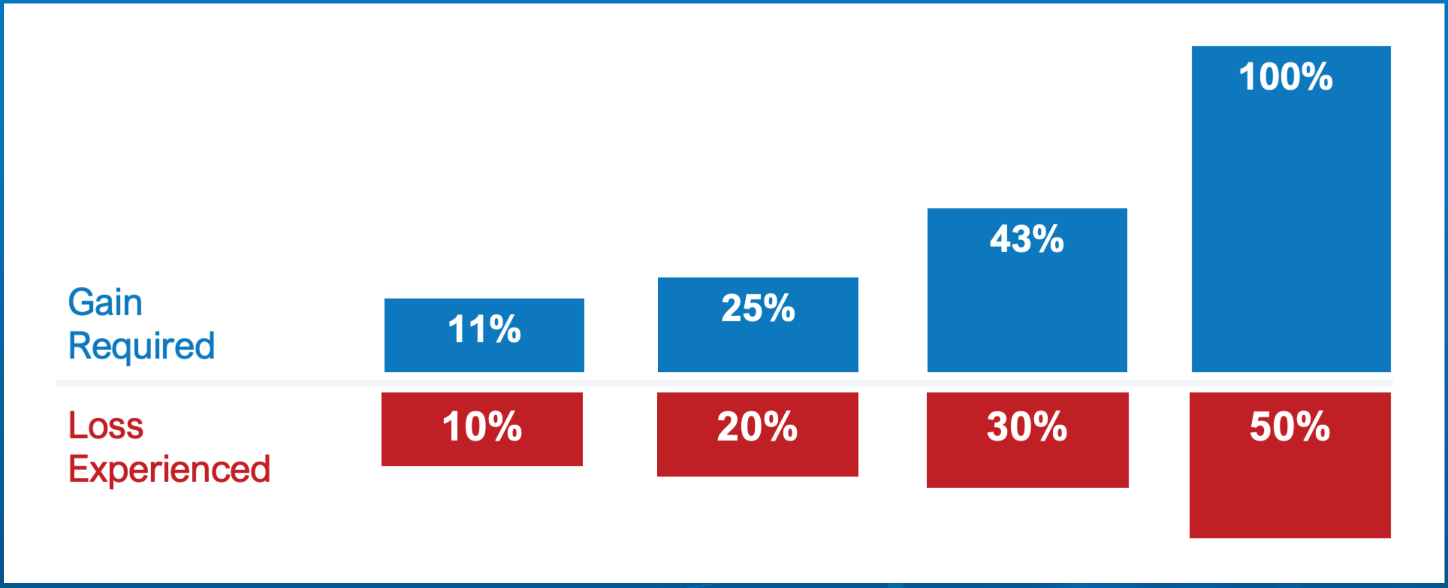


Let's say you retired in the year 2000 and anticipated a 20+ year retirement. By 2021, the $100 purchasing power you had in year 2000 can now only afford you $66.06 worth of goods and services. That's almost a 34% decrease in purchasing power over two decades.

Whether you are in or approaching your golden years, it's important to consider various strategies that can help combat the potentially negative effects of inflation so that you may afford the things that you need and want in retirement.

Risk #3: **Market Downturns**

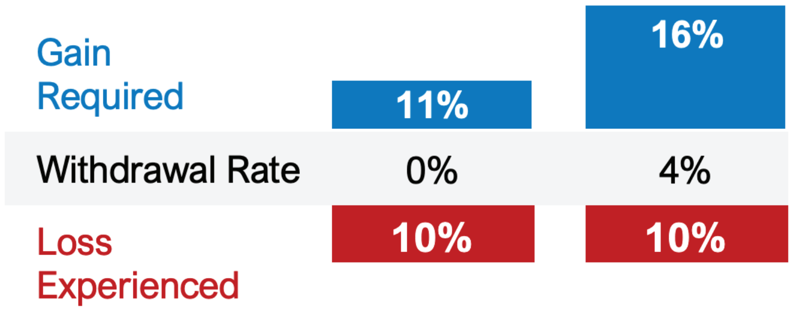
Market volatility tends to be a constant throughout an investor's lifetime. However, it can have a greater impact for those approaching -- or in -- retirement. Risk relating to market downturns refers to the tendency for an investor's assets, such as stocks, mutual funds, and bonds, to fluctuate in value. A decline in market value of any of these vehicles can reduce the overall value of a retirement portfolio. The chart below illustrates the gain required to make up for loss inside a portfolio.



For example, the needed gain to restore a 10% loss can be expressed as: [1 / (1 - .10)] - 1 = .1111 or 11.11%. Therefore, the needed gain to restore the 10% loss is 11.11%. As the loss increases, the necessary gain to restore that loss increases at a heightened rate.

49% of individuals say a **stock market drop** is the greatest threat to their **retirement income.**[5]

Moreover, if a retiree is withdrawing an income from this portfolio, it can compound the amount of loss assumed. When a withdrawal is taken while the market is down, it will take an increase in value greater than the decrease for the portfolio to recover– this financial phenomenon is known as the “Sequence of Returns Risk.”



Long-term investing success, especially in retirement, can include helping the overall portfolio participate in the gains while reducing the downside risk, and protecting the principal needed to fund life in retirement. Therefore, investors want to strive for a retirement diversification strategy that maximizes potential for growth while adjusting for the appropriate level of risk as needs change over time.

Risk #4: **Surviving Dependents**

The financial impact of survivorship should not be underestimated in any phase of life, including retirement. When a spouse passes away, the total amount of retirement income tends to decrease for the surviving spouse and any dependents. For the surviving spouse, this could mean lifestyle adjustments such as eliminating things that they want in retirement, downsizing the family home, and/or picking up part-time work to replace the lost income. Take, for example, Social Security benefits. If both spouses are receiving Social Security, and one spouse passes away, the surviving spouse can elect to take the highest of the two Social Security benefits but must forgo the lesser amount, resulting in less overall income.

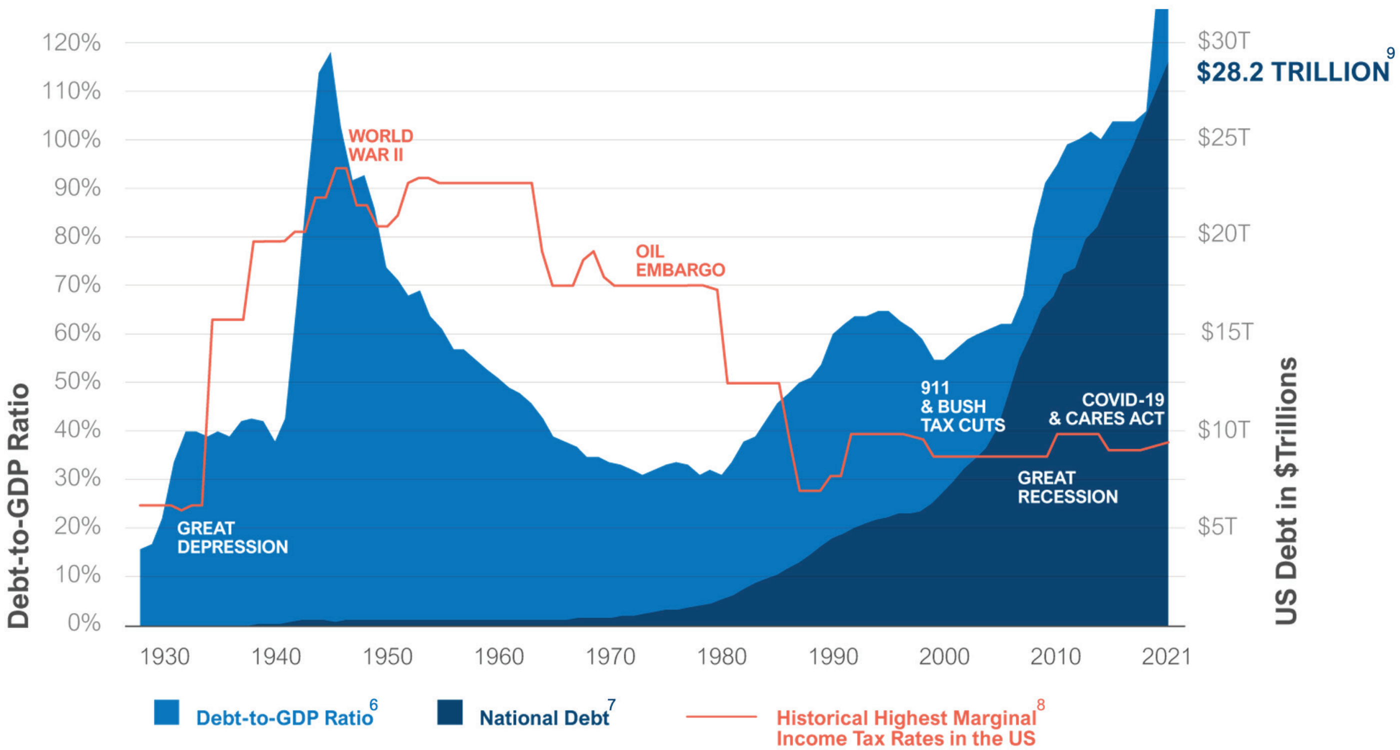
It’s important to consider various income planning strategies that can help the surviving spouse and any dependents maintain their current standard of living for the remainder of their lives. Be sure to consult a qualified financial professional who can walk through various income replacement options in retirement.

Risk #5: **Tax Increases**

Many Americans will owe taxes on their retirement income withdrawals. This can equate to 15, 20, or even 30 years of future tax liabilities while one is no longer earning an income. The retirement risk in this scenario is tax increases. If taxes go up, there is a likelihood that so will your tax bill. This means less money for the things you need and want in retirement.

In the U.S., we have seen a correlation between debt to Gross Domestic Product (GDP) as a leading indicator of tax increases. The chart below illustrates how the highest marginal tax income rate trends with the debt-to-GDP ratio. Today, our debt is reaching unprecedented levels, therefore many anticipate U.S. tax rates will also increase in the near future.

Debt to GDP as a Leading Indicator of Tax Increases



It's important to meet with a qualified financial professional who can help structure your retirement assets in the most tax-efficient manner possible.

Take Action Now

If you've worked and saved for your entire life to afford retirement – then you deserve to enjoy it when the time comes. By being as diligent with your retirement income planning as you were with your savings, you can work towards protecting your retirement from these five risks so that you have the income for things that you need and want in retirement.

If you would like to learn more about these 5 risks your retirement may be facing and discuss potential strategies for avoiding these risks, please contact:

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