10 THINGS EVERYONE SHOULD KNOW ABOUT RETIREMENT INCOME

1 The 4% Rule May Not Work

There is no hard and fast way to create reliable income in retirement, and opinions vary greatly. The 4% rule basically says that after you have a certain amount of money put away, you can safely withdraw 4% of it every year to live on. Some advisors now say 5% works, or 2%, and some have a completely different methodology for calculating withdrawals. Other advisors have developed alternative strategies which may hedge against stock market risk.

According to a report from the Consumer Bankruptcy Project (CBP), the rate of bankruptcy among senior citizens has increased between a stunning 200%-300%.[3] To help avoid this unfortunate fate, adequate savings paired with a realistic and sustainable spending rate are vital when entering retirement. An individual's spending rate will most likely fluctuate based on uncontrollable factors, such as length of living, health concerns, inflation, and market returns and volatility.[4] In addition, your rate can also vary based on factors that can be controlled such as retirement age and extracurricular activities including travelling and golfing. Retirement spending rates, typically, are not one-size-fits-all, and implementing a financial plan can help to understand what to expect.

https://www.investopedia.com/terms/f/four-percent-rule.asp
3 https://protectpensions.org/2018/08/16/americans-going-bankrupt-retirement/
4 https://www.fidelity.com/viewpoints/retirement/how-long-will-savings-last

2 Inflation Is Real

Inflation is something that should be addressed in every individual's retirement plan because it can take a big bite out of your income's buying power over time. As an example, a gallon of milk that cost only $1.32 in 1970 cost $4.43 in 2023. The Consumer Price Index (CPI) in the United States is used to calculate the inflation rate, but keep in mind that there are several versions of that index, such as chained, unchained, etc. Economists say that certain indexes don't calculate inflation accurately. The Federal Reserve wants the inflation rate to stay at the 2% level, and that rate is one of their target factors when determining policy.

https://www.tasteofhome.com/article/heres-the-price-of-milk-the-year-you-were-born/
https://www.thebalance.com/what-is-an-inflation-index-357609
https://www.federalreserve.gov/faqs/money_12848.htm
https://www.ams.usda.gov/sites/default/files/media/RetailMilkPrices.pdf

3 Sequence of Returns Can Be a Problem

No one can predict if, or when, a stock market correction will occur, but timing is everything. Mathematically, if the stock market goes down at the beginning of someone's retirement, they are more likely to run out of money than someone who experiences a bull market at the beginning of their retirement, even if they start out with the exact same amount of money. It's called "sequence" or "sequence of returns" risk, and experienced retirement advisors will start addressing this with you from the moment they create your retirement plan.

https://www.investopedia.com/terms/s/sequence-risk.asp

4 You Must Plan for Longevity

The Social Security website says, "When you are deciding when to start receiving retirement benefits, one important factor to take into consideration is how long you might live. A man reaching age 65 today can expect to live, on average, until age 84. A woman turning age 65 today can expect to live, on average, until age 86. About 1 out of every 3 65-year-olds today will live past age 90, and about 1 out of 7 will live past age 95." Your retirement income plan must take into account that you may live a very long time.

https://www.ssa.gov/planners/lifeexpectancy.html

5 Health Care Coverage

Health care remains one of the largest retirement expenses, with an estimated average cost of $285,000 per 65-aged couple in 2019 – and that's excluding long-term care.[5] With that said, this amount is dependent on a couple of factors: your personal health, how long you live, and where and when you plan to retire. 65 is the age in which a person becomes eligible for Medicare and Medicare Advantage, and it is important to explore the different plans that are associated with Medicare to determine which one is the most fitting for your needs. For early and pre-retirees who are younger than 65, there are various options to consider when searching for medical coverage, such as employer-sponsored insurance plans, among others. Thoughtful tax-planning may be needed to evaluate which options are best for your specific needs.

The risk of medical expenses becoming unaffordable in retirement. It is estimated that $285,000 per couple will be needed in today's dollars to cover Medicare premiums and out-of-pocket health care expenses, not including long-term care.[11] Adequate funds and contingency plans for health care should be part of a robust retirement plan.

5 https://www.fidelity.com/viewpoints/personal-finance/plan-for-rising-health-care-costs
11 https://www.fidelity.com/viewpoints/personal-finance/plan-for-rising-health-care-costs

6 Incapacity Risk

The risk that, as a result of deteriorating health, a retiree may not be able to execute sound judgment in managing their financial affairs. Incapacity risk can be managed through having tools such as wills, trusts, and power of attorney provisions in place at the time of retirement, if not before.

Preparing for the many adverse personal events you could face in retirement is what a financial advisor is trained to do. You will want to consider estate planning to protect you should you or your spouse become incapacitated, liability insurance to protect against lawsuits, and a plan for long-term or nursing facility care if needed, because it is not covered by Medicare.

Did you know that nearly half of Americans have yet to begin planning for their retirement years?[1] There are many different aspects of your retirement that should be planned out to help alleviate stress and set you up for a successful and relaxing future. When making decisions about when to retire, you should consider the following:

1 https://www.rothira.com/retirement-statistics

7 Market Risk

The risk of losing invested wealth, either temporarily or permanently, because of a market downturn or poor investment performance. Market risk can be managed through diversification of savings and investments, including use of insured solutions to provide stability and assurance of income irrespective of market results.

In general, when interest rates go up, bond values go down. Interest rate risk is common to all bonds, even U.S. Treasury bonds. A bond's maturity and coupon rate generally affect how much its price will change as a result of changes in market interest rates.[10]

10 https://www.sec.gov/files/ib_interestraterisk.pdf

8 Asset Allocation Risk

The risk of investing either too conservatively or too aggressively and not adequately diversifying assets to sustain a portfolio across market cycles. Asset allocation risk can be managed through the assistance of an experienced investment professional, through diversification of assets, and by including insured solutions as part of the investment mix.

9 Retirement Income Streams

Even though your career paycheck might stop coming in, your expenses do not. It is important to identify if your retirement income, in addition to your savings, can cover expenses for the rest of your life. For this reason, it is important to know where your income during retirement is going to be coming from. There are several options for retirement income, including pensions, Social Security benefits, annuities, and taxable investments such as stocks and bonds. For some of these options, time is money. It is important to know when to claim Social Security, for it literally pays to wait to take your benefit. Here is the retirement age breakdown for Social Security benefits:[2]

- **Age 62** – qualified individuals are eligible to file for their Social Security benefit.
- **Age 66 or 67** (depends on your birth year) – full retirement age; entire benefit is available to you.
- **Age 70** – when delaying to file for your benefit past your full retirement age, your benefits grow by approximately 8% each year, which could increase your benefit by 132%.

https://www.financialsymmetry.com/6-retirement/
2 https://www.cnbc.com/2018/03/09/claiming-social-security-at-age-62-isnt-always-a-bad-move.html

10 Adding Annuities to Your Portfolio May Help

Because neither longevity nor future stock market performance can be predicted, annuities may help augment and protect your income in retirement. Certain types of annuities, such as fixed indexed annuities, for example, offer guarantees backed by the claims-paying ability of the insurance carrier along with the potential for growth, as well as lifetime retirement income. You should work with a financial advisor who can recommend a balanced portfolio to provide the right amount of income, safety and liquidity for your needs.

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