

Risks that the Modern Retiree Faces

Retirement planning is not the same for everyone. As your wealth grows higher over time, it comes with more significant risks – risks that must be carefully managed to ensure financial security. 3 primary risks stand out: taxes, inflation, and market volatility. These risks threaten not only the ability to generate sufficient income in retirement, but also the ability to preserve wealth for future generations.

Taxes in retirement seem to be a universal concern and pose one of the most significant threats to retirees, however, it is also the can that is most often kicked down the road. Proactively planning tax strategy as part of your foundational plan is critical to paying the least taxes in retirement. There is no better time to start than the present and it could save you hundreds of thousands over a 20-year span.

Modern retirees are living longer than ever, so planning for a 20- and 30-year retirement is not uncommon. Inflation gradually erodes your purchasing power of your savings, even if you are able to “just live off the interest”. Inflation is tied to healthcare costs, costs of everyday living, and reduces the real return on investments. Unfortunately cost of living adjustments with social security don’t typically keep up with inflation and Medicare doesn’t cover long-term care expenses associated with activities of daily living.

Since 1942 we have averaged a bear market (>20% drop) every 5.5 years. When the market drops, losses hurt more than gains help, meaning if the market drops 30% you will need a 43% return just to break even. This means for every \$100, if you lose 30% then you have \$70. If the account then bounces back 30%, you are only growing that \$70, so your total value is now \$91. You would need 43% growth on \$70 just to make it back to \$100. The modern retiree should plan before it happens. If we are planning on a 30-

year retirement, there will most likely be 5 bear markets in retirement. Don’t wait for it to happen, be proactive and plan for it to happen. Include as part of your strategy what to do when the market crashes.

5 Pillars of Retirement Planning

For the current retiree or within 10-years of retirement

Modern retirement planning has blended the older models that have been tried and true with adaptations for market, economic, and legislative shifts that have occurred. As the modern retiree approaches and enters retirement, there are 5 critical areas to financially plan for success. Those 5 areas are income, investments, taxes, healthcare, and legacy.

Income planning is the first step of retirement planning. Regardless of how much you have saved, the primary purpose of your retirement savings in retirement is income. If you are trying to squeeze as many nickels out of your dollars as possible, there isn’t a one-size-fits-all method for the modern retiree, there are multiple ways to create income streams that insulate you from the many risks that will come your way. Often times you can safely and confidently do better than the “4%” rule if you plan ahead.

The second area of retirement planning is investing with purpose. As the purpose shifts from saving and growth during your working years, to income and legacy planning goals in retirement, the investments should shift as well. Each investment in retirement should have a purpose behind it or a reason that it is invested the way that it is invested. Some of the common purposes are: basic living expenses, “fun” expenses such as travel/entertainment/hobbies, major expenses such as home remodeling/cars, healthcare and long-term care expenses, charitable giving and inheritance.

Depending on the purpose, the funds for each might benefit from different investments.

Strategic tax planning is best planned for immediately. The earlier that you plan, often the more taxation you can avoid in retirement. Common methods used for tax planning include ROTH conversions, qualified charitable distributions, donor-advised funds, and trusts.

Healthcare is a major expense both from what Medicare costs and long-term care that Medicare does not cover. These can quickly erode both living standards, what a surviving spouse is left with, and inheritance. Plan ahead.

The final pillar of retirement planning is estate and legacy planning. By planning ahead, retirees can ensure the wealth they have accumulated is distributed the way that you want, to whom you want, and can help avoid additional taxation. It also ensures you are protected while you are alive.

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