Are You Putting Your Retirement Years In Jeopardy?

By Deborah Feldman, CFP®, President

I came across an interesting statistic a few weeks ago. According to a Pew Research Center study, 15% of middle-aged people are part of the ñSandwich Generationò, a group comprised of individuals simultaneously providing for an adult child and an aging parent. Seventy percent of these ñsandwichedò workers admitted to barely getting by. Worse still, these workers were also at the stage when they should be setting aside dollars and planning for their retirement.

Weôve been advising on retirement planning for 34 years; our earliest retirement planning clients have been successfully retired for almost three decades! Although these retirees have all deviated from the plan originally created for them Ъ not many people in their fifties can accurately predict what theyôll want to do in their eighties Ъ we advised them how to adjust their plan to fit their new objectives in an ever-changing financial environment.

Retirement planning is not an exact science, it is instead a fluid process in which your advisor works with you to identify strategies to help keep you on track with your objectives and avoid financial dangers. Hereôs a sampling of some of the important considerations our planners take into account when creating a forward-thinking retirement plan:

1) **Inflation**. Donôt just look at the Consumer Price Index (ñCPIò); *you* have a personal inflation rate based on how you allocate your money for medicine, utilities, food, automobiles, etc. Your rate needs to be identified for future cash flow analysis purposes. If you tend to be an above-average healthcare consumer, consider that year-over-year percentage increases for healthcare costs have tended to exceed the annual percentage increase in the CPI. If you own a home, you know that

percentage increases in property taxes can vary significantly by location. Donõt be fooled by ñsmallò numbers: Clients are often surprised to see that over twenty years, $50,000 in yearly expenses becomes $74,297 with annual inflation of ñonlyò 2%.

2) **Your adult children can derail your retirement plan.** Itõs natural for parents to want to give their children the best possible start in life, but many parents put their retirement at risk by doing so. People starting families in their thirties are in their fifties when their children graduate high school or college. Lavish weddings, cars, down payments for homes and graduate school tuition are examples of expenses that may not be affordable for many parents trying to save for retirement. Because we believe itõs critical to be proactive when planning for retirement, creating a ñPlan Bò retirement option that often includes a delayed retirement date is one way to address the situation of parents that want to continue helping adult children.

3) **Health care costs will be higher than you expect.** The average couple retiring today can expect to pay upwards of $377,412 in out-of-pocket health care costs (including the cost of a Medicare Supplement Insurance policy) according to a HealthView Services data report. Your retirement plan should take this potential cost into account, and also give consideration to funding a Health Savings Account (ñHSAò). A Medicare Supplement Insurance policy can help pay for copayments, deductibles and coinsurance not covered by Original Medicare; some policies also cover medical care when traveling overseas, and some older policies offered prescription drug coverage. An HSA can help with health care costs in retirement; an HSA is paired with a high-deductible health care plan in your working years. HSA contributions are tax-deductible or excluded from your gross income (depending on how made), the account balance grows tax-free, and withdrawals to pay for qualified health care costs are also tax-free. HSA that goes largely unused during your working years can become a healthy nest egg for future health care costs.

4) **Many people will need long-term care ─ and it's expensive.** According to the U.S. Department of Health and Human Services, more than two-thirds of people over age 65 will someday need long-term care (ñLTCò). Given that the average stay in a LTC facility is between three and five years, an average stay might cost more than $300,000 in todayõs dollars.

5) **Social Security timing is complicated.** Thereõs no one size fits all benefit claiming strategy. There are many factors to consider when deciding when to begin receiving benefits, including the likelihood of continued employment, life expectancy, your other resources, and income taxes. Although Social Security payments begun before your full Social Security Retirement Age result in a permanent decrease in your monthly benefit, sometimes claiming early is the best choice: youõre single and have a shortened life expectancy. Meet with your advisor and create a strategy that may work best for your particular situation *before* you contact Social Security and make a choice you may not be able to change.

6) **What will your retirement home look like?** One in four retirees carry+ a mortgage into retirement according to a recent survey conducted by Voya Financial. Even though a high mortgage payment can constrain some budgets to the point where desired lifestyle choices may not be affordable, paying down your mortgage may not be the best solution if it leaves you without a cash cushion. Here, too, thereõs no one size fits all strategy. For some retirees, downsizing to a smaller home, moving to a less expensive area, or renting a home can be considerations.

7) **Will you work part-time?** According to Gallupõs 2016 Economy and Personal Finance Poll, three in ten workers expect to keep working, at least part-time, past age 67. Some plan to keep working because they appreciate the physical and mental health benefits that come with keeping

an active body and mind, while others plan to keep working because they cannot afford to retire. Whatever the reason, the added income can help preserve your retirement nest egg.

8) **A tax efficient income generation plan is important.** The income tax on your retirement cash flow may impact how long your funds last. For example, foregoing after-tax account withdrawals in favor of taking pre-age 70 ½ IRA distributions (thereby potentially making future required minimum distributions smaller) may reduce or eliminate income tax on your post-age 70 ½ Social Security benefits.

9) **You may want to invest too conservatively.** If you want your money ñsafelyò invested in CDs and government bonds but you need to generate high returns to meet your expenses, you risk outliving your money. In a low interest rate environment, your investment strategy may need to include some stocks in its mix.

Successful retirement planning does not happen by accident. One of our goals as your financial advisor is to help you create and maintain a comfortable and secure future. Please feel free to contact us anytime with your questions/comments/concerns. We are always happy to hear from you.