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## Managing Key Retirement Risks

Planning for a Successful Lifestyle and  
Secure Income for Your Lifetime

**Paul Byron Hill, MBA, MFP, MSFS, ChFC®, RICP®, CFP®**  
CEO | Wealth Management Certified Professional™

**Professional Financial Strategies, Inc.**

Powder Mill Office Park  
1159 Pittsford-Victor Road, Suite 120  
Pittsford, New York 14534  
(585) 218-9080

[www.ProfessionalFinancial.com](http://www.ProfessionalFinancial.com)

# 18 Risks faced in retirement.

## RISKS OF OUTLIVING RESOURCES

**RISK 1: LONGEVITY RISK**

**RISK 2: INFLATION RISK**

**RISK 3: EXCESS WITHDRAWAL RISK**

## RISKS ASSOCIATED WITH AGING

**RISK 4: HEALTH EXPENSE RISK**

**RISK 5: LONG-TERM CARE RISK**

**RISK 6: FRAILTY RISK**

**RISK 7: FINANCIAL ELDER ABUSE RISK**

## INVESTMENT RISKS

**RISK 8: MARKET RISK**

**RISK 9: INTEREST RATE RISK**

**RISK 10: LIQUIDITY RISK**

**RISK 11: SEQUENCE OF RETURNS RISK**

## WORK

**RISK 12: FORCED RETIREMENT RISK**

**RISK 13: REEMPLOYMENT RISK**

**RISK 14: EMPLOYER INSOLVENCY RISK**

## FAMILY

**RISK 15: LOSS OF SPOUSE RISK**

**RISK 16: UNEXPECTED FINANCIAL RESPONSIBILITY RISK**

## OTHER

**RISK 17: TIMING RISK**

**RISK 18: PUBLIC POLICY RISK**

# 18 Risks faced in retirement.

## RISKS OF OUTLIVING RESOURCES

### RISK 1: LONGEVITY RISK

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No one can predict how long he or she will live. This complicates planning since a retiree has to secure an adequate stream of income for an unpredictable length of time.

#### EXAMPLE

You build your plan expecting to live to age 82. It turns out that you live to 92. How are you going to make your money last an additional 10 years?

#### FACTORS

- According to the Social Security Commission, the average life expectancy for those still alive at age 65 is:
  - Age 84.3 for males
  - Age 86.6 for females
- Maybe more important are the odds of living longer than average
  - 1 in 4 will live past age 90
  - 1 in 10 will live past 95

#### SOLUTIONS

- Uncertainty cannot be eliminated, but good planning starts with a realistic expectation of life expectancy using life expectancy tables as well as considering personal and family health history. One online calculator that takes these factors into consideration, in providing an individual estimate, is called the living to 100 calculator.
- Many will want to plan to age 90 since 1 in 4 are expected to live that long—but fewer may want to plan for living past age 95 as only one in 10 lives that long. Those with a greater concern about outliving their assets will choose a longer planning horizon. It is important to note that unless the risk is transferred, the longer the planning horizon, the more resources will be required to be saved.
- Transferring the risk of living too long can be accomplished by increasing sources of income that provide income for life, using the following approaches:
  - Inflation protected, lifetime income can be increased by deferring Social Security payments.
  - Electing life annuity payments from an employer sponsored retirement plan—unfortunately, most employees with a lump sum option elect the lump sum instead of an annuity.
  - Purchase a life annuity to create a stream of income for either the life of a single individual or over the joint lives of a couple. Immediate annuities can be purchased at retirement or layered over time in case a person's health status changes as she ages.
  - Purchase a deferred income annuity which allows for the prepurchase of lifetime income for those that want to build

# 18 Risks faced in retirement.

## RISKS OF OUTLIVING RESOURCES

retirement income prior to retirement or want to buy an annuity that begins later in life. This can be a cost effective way to protect against longevity risk.

- Deferred annuities can also be used to create income for life as these can be annuitized at a later date, allowing the owner to lock in lifetime income. Deferred annuities can be purchased with riders that provide for a lifetime withdrawal at a rate specified in the contract.
- Lifetime income is also available with life insurance contracts. When a death benefit becomes due, a spouse can choose a life annuity form of payment. Also, cash value life insurance contracts can be exchanged for a life annuity under Code Sec. 1035 without tax consequences.
- Other sources of income payable for an indefinite period will provide some protection from longevity risk.
  - With reverse mortgages under the Home Equity Conversion Mortgage program (HECM), one of the withdrawal options is the tenure option. This is a specified monthly payment for as long as the last borrower remains in the home.
  - Rental income on property owned is one of those sources of income. This could be renting out the basement apartment, owning a home or apartment building that is rented out, or owning commercial property.
  - Dividend paying stock has no time limits on the payment of dividends.
  - Those with active business interests can also receive ongoing payments. This can be anything from owning part or all of a company to receiving royalties from books, television shows, or other property interests.
- With a strategy of taking periodic withdrawals from a portfolio, it is important to carefully consider how much can be withdrawn and still ensure that the portfolio lasts a lifetime. What some of the research reveals is:
  - The safe withdrawal rate research shows that a 4 or 4.5 percent inflation adjusted withdrawal rate (based on the initial account value) will be sustainable for 30 years. If planning for a possibility of a longer retirement period the withdrawal rate should be adjusted downward somewhat.
  - Portfolio sustainability is enhanced by making reductions to the withdrawal rate when the market is down.
  - With longer time horizons, the portfolio's sustainability is generally enhanced by increasing the percentage of equities in the portfolio.
- A contingency fund can be built that can be used for longevity as well as other risks.
  - A contingency fund for this risk can be a diversified portfolio—with investments that emphasize long-term growth.
  - A Roth IRA makes a good tax wrapper for this type of account since the value is not diminished by taxes, and if the funds are not needed, the Roth is a very tax efficient vehicle to leave to heirs.
  - A contingency fund could also be the cash value of a life insurance policy—the goal may be to provide the death benefit for heirs, but if needed the cash value can be withdrawn or borrowed from the policy.
  - A reverse mortgage with a line of credit payout option is another good contingency plan.

# 18 Risks faced in retirement.

## RISKS OF OUTLIVING RESOURCES

### RISK 2: INFLATION RISK

When working, inflation is often offset by an increased salary. In retirement, inflation reduces the purchasing power of income as goods and services increase in price, impeding the client's ability to maintain the desired standard of living.

#### EXAMPLE

- Juan and Maria needed \$5,000 a month to live when they retired at age 62 in 1988. They will need \$10,760 per month in 2018 to maintain the same purchasing power.

#### FACTORS

- The Department of Labor inflation calculator can be used to illustrate the erosive impact of inflation.
- Some economists worry that the federal deficit may lead to high inflation. This could mean baby boomers seeing much higher inflation rates than we have seen in the recent past.
- Even modest inflation can significantly erode purchasing power over time. For example, a 3% annual inflation will mean that costs double for a client who retired at 62 and is now 86.
- Higher inflation rates can apply to the goods and services that retirees purchase—for example, health care expenses.

#### SOLUTIONS

- The first part of the plan to address inflation is building in realistic estimates of long-term inflation when calculating how much to be saved for retirement. In this modeling sophisticated retirement software can apply different inflation rates to different expense categories.
- An excellent strategy is to build in streams of income that have built in inflation protection.
  - Deferring Social Security benefits means a larger percentage of income that has inflation protection.
  - If an employer-sponsored retirement plan includes cost of living increases—deferring has the same impact. Cost of living adjustments are more likely with a government-sponsored plan—although private company plans may provide ad hoc increases to benefits over time.
  - Another option is purchasing a life annuity with a cost of living rider. There are a limited number of products that offer this option, and they may be expensive due to the risk taken on by the carrier.
  - Build a ladder of bonds using TIPs. More specifically, purchase just the principal portion of the TIPs to create an inflation-adjusted stream of income for a specified period of time.
- Besides income streams that have direct inflation protection, you can also build income streams that increase over time.
  - Build a bond ladder that provides for an increasing income over time.
  - Purchase a term certain or life annuity that increases payments over time. Many annuity products allow this feature—and increases of 1 to 5 percent are often available.

# 18 Risks faced in retirement.

## RISKS OF OUTLIVING RESOURCES

- Another option with annuities is to buy more annuity income over the retirement period. Payout rates from annuities increase as the owner ages, and purchases can be made in good years when asset values have increased.
- Purchase Inflation adjusted investments such as US government TIPS and Series I Treasuries. TIPS can be used to build an inflation-adjusted stream of income, and TIPS and Series I Treasuries can also simply be part of a portfolio that keeps up with inflation.
- Invest in asset classes that are likely to do well in inflationary times.
  - Investments in real estate are one such category, as unanticipated inflation often positively impacts real estate returns.
  - Investing in equities can also provide a limited hedge on inflation. International equities may provide an even better hedge as inflation is often associated with depreciation of home currency.
- Under the safe withdrawal rate research, a 4 or 4.5 percent withdrawal based on the initial portfolio value can have cost of living increases and still be safe for a 30-year retirement period.
- Have a contingency fund that addresses a number of risks in retirement. Note that longevity risk and inflation risk are related, and if a client lives a long time, he or she will have more exposure to inflation risk as well—meaning that having a single fund to address both risks may be problematic.
- Another way to manage inflation risk is to shorten the retirement period—reducing the number of years that the retiree is subject to inflation. This can be done simply by deferring retirement. This is another value to working longer that is not always considered.
- Working part-time in retirement may be another way to offset inflation risk as wage income is likely to reflect the inflationary pressures.
- Lower or eliminate expenses in retirement.
  - If expenses are prepaid at today's prices, you do not have to be concerned about inflation.
  - One common expense that is handled this way is prepaid funeral expense.
  - Another consideration is paying off or converting adjustable rate mortgages and loans to fixed rate loans to eliminate the risk of increasing debt service.



# 18 Risks faced in retirement.

## RISKS OF OUTLIVING RESOURCES

### RISK 3: EXCESS WITHDRAWAL RISK

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When taking withdrawals from a portfolio during retirement to fund income needs, there is a risk that the rate of withdrawals will deplete the portfolio before the end of retirement.

#### EXAMPLE

Since you know that stocks have historically earned an average of 8% a year, you assume that you can afford to withdraw 8% of the initial portfolio value (plus a little more for inflation each year)—while in reality to protect against the uncertainty of the market you may have to limit withdrawals to 4% or less.

#### FACTORS

- Sustainable withdrawal rate research—there is a lot of research on how much can be withdrawn from a portfolio without risking portfolio failure. Unfortunately the answer is complicated, and depends upon the length of retirement, the asset allocation, and whether rates of return will match historical returns. Choosing an appropriate withdrawal rate should be done with the help of a qualified advisor with expertise in this question and with the assistance of computer software.
- Appropriate adjustments—another factor that affects how much can be withdrawn is whether the client is willing to make adjustments over time. If the income need is determined —let's say its \$50,000 and increased for inflation each year and the client cannot tolerate a reduction—the possibility of portfolio failure increases.
- Discipline—another factor is the ability to stay within the discipline of a withdrawal plan. Taking withdrawals from a portfolio allows for flexibility, but that can be a disadvantage as well. When the adult children are buying houses, the grandchildren are going to college or other compelling reasons to spend appear, it's hard to stay within the discipline of a spending plan.
- Under- and-over-spending—to ensure that a portfolio lasts a lifetime, the withdrawal rate needs to be conservative. This has the downside that retirees may not fully enjoy retirement out of a concern of running out of money. So taking withdrawals from a portfolio presents both a risk of spending too much, and a risk of spending less than can be afforded.

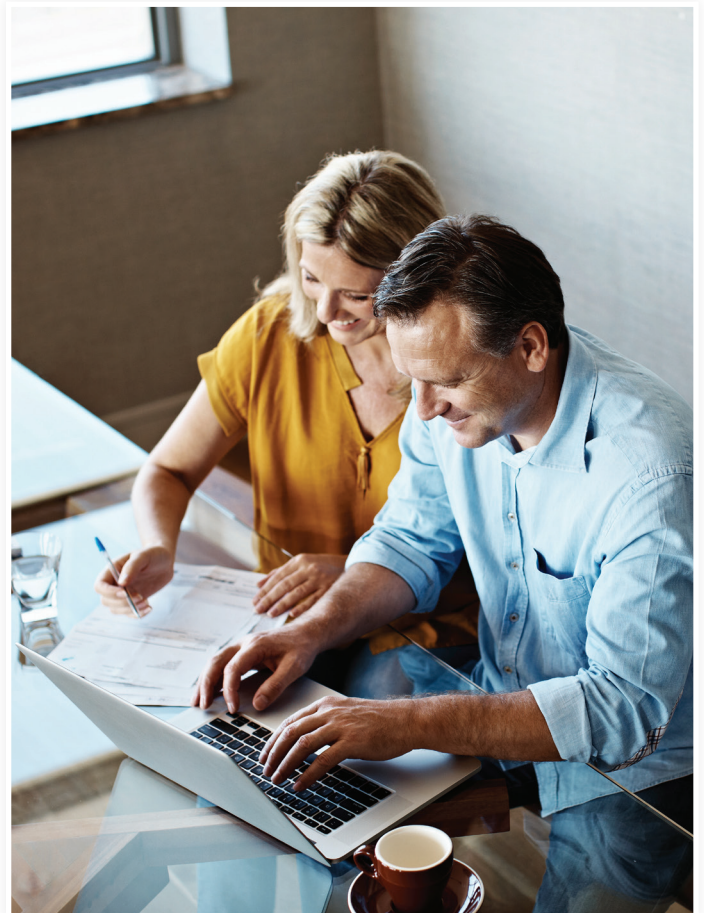
#### SOLUTIONS

- Building a plan to address excess withdrawal rate risk requires an understanding of the research about rates of withdrawals that can be sustained over a retirement period.
- Technically, the safe withdrawal rate means the rate that using historical analysis would be sustainable in the worst case scenario. In many years, a higher rate would work—meaning it's not that easy to pick an appropriate withdrawal rate.

# 18 Risks faced in retirement.

## RISKS OF OUTLIVING RESOURCES

- Choosing a withdrawal rate also means weighing a client's desire for increased spending in relation to willingness to reduce spending. That is, in part, the client's attitude, but it's also a function of his risk capacity as well. If a retiree has Social Security and a substantial pension that is payable for life, then the client has more capacity for risk in taking withdrawals from the portfolio.
- A real and serious consideration is sticking with the withdrawal plan. It should be helpful to have regular client meetings reviewing the plan and making sure that the client has a clear understanding of the consequences of failing to follow the plan.
- Whether the plan is realistic is also a function of whether other contingencies have been planned for, or whether the portfolio is being relied upon to meet long-term care needs, unexpected health care expenses and other risks faced in retirement. Sometimes clients simply determine their income needs without considering those big periodic expenditures—like replacing a roof or buying a new car.





# 18 Risks faced in retirement.

## RISKS ASSOCIATED WITH AGING

### RISK 4: HEALTH EXPENSE RISK

For those that had employer health care coverage, retirement may mean paying more for medical insurance (Medicare Parts B and D and Medicare Supplement policies). Even with insurance, some expenses will be paid out of pocket. Also, chronic or acute illnesses may mean more significant and unexpected out-of-pocket expenses.

#### EXAMPLE

At age 70, a client has some serious problems with her feet and she discovers that Medicare does not cover routine podiatrist visits. Or an even bigger surprise, she has a major surgery and discovers she faces a deductible and a 20 percent copay on many expenses.

#### FACTORS

- The amount needed to cover health insurance premiums and out-of-pocket expenses is significant—and often underestimated. A Fidelity study indicated that retiree couples thought that they only needed to have \$ 50,000 to cover medical expenses.
- According to an EBRI study, the dollars needed at 65 to cover health care costs for couples varies from \$169,000 to \$349,000 depending upon whether the couple has average expenses or medical and drug expenses at the high end.

#### SOLUTIONS

- Planning for unexpected health care costs begins by choosing appropriate insurance. For those aged 65 and above who are eligible for Medicare, it means understanding options under Medicare and choosing insurance to supplement Medicare.
- Having comprehensive insurance helps to make costs more predictable and avoid any extraordinary expenses. Medicare has no cap on out-of-pocket expenses; to limit costs requires purchasing a Medicare supplement.
- A critical part of planning is making sure that sufficient funds are available at retirement to meet expenses. Determining costs is not easy as they vary a lot from individual to individual. When modeling health care expenses, you can build in a lump sum amount to the amount needed at retirement or estimate annual expenses each year. Also, it's important to consider the inflation factor appropriate for medical expenses.
- Insurance for those eligible for Medicare
  - Individuals become eligible for Medicare at age 65. Almost everyone is eligible for Medicare Part A which covers hospital expenses at no cost and for Part B upon paying a monthly premium.

# 18 Risks faced in retirement.

## RISKS ASSOCIATED WITH AGING

- Individuals aged 65 can purchase prescription drug coverage under Medicare Part D. Individuals choose from among available private plans. Choosing a plan is an important decision, and changes can be made each year in an open enrollment period. Plans with higher premiums may offer more comprehensive benefits and may result in lower total out-of-pocket costs for a retiree with significant drug expenses.
- Medicare Parts A and B are quite comprehensive, but they do have deductibles and copays and some health care needs of older adults are not covered. Some of the gaps can be addressed through Medicare Supplement insurance. Insurance companies must sell plans that provide standard benefits, however premiums can vary from company to company. There are a number of available plans; the more comprehensive plans have higher premiums but can have the important function of making costs more predictable and putting a cap on out-of-pocket expenses.
- An alternative to a Medicare supplement is to join a Medicare Advantage plan. With this approach, instead of Medicare providing reimbursement directly under A and B, the individual is no longer in traditional Medicare, and the insurance company takes over responsibility for all medical reimbursements. These plans require care through a specified network, usually in exchange for lower premiums than Medicare plus a supplement or a wider range of benefits.
- Pre-Medicare coverage is required for those that retire prior to 65. Options include:
  - Employer-provided post-retiree medical coverage.
  - COBRA-continued coverage for 18 months under the employer's plan
  - Coverage under a working spouse's insurance plan.
  - Purchase private medical insurance to cover the gap between employer-provided insurance ending and Medicare beginning. This can also be coverage purchased through the health care exchanges
- Controlling health care costs can also be part of the solution and options include:
  - As drug expenses make up a quarter of health care costs in retirement, going to generic brand drugs may result in significant savings.
  - Preventative care and living a healthy lifestyle can significantly cut down on health care expenditures.
  - Continue to evaluate insurance, dental, and drug plans to get the best deal.
  - Consider some medical procedures out of the country. Many other countries have state-of-the-art medical care, but at a fraction of the U.S. cost.
  - Relocate to lower the costs associated with medical care. Both medical costs and costs of insurance vary significantly across the country.
- Other solutions
  - Those with high deductible health care plans can use health care savings accounts to set aside money for medical costs in retirement.
  - Limit end of life costs by maintaining advanced health care directives.
  - Defer retirement to stay on the employer's subsidized health care insurance or go back to work to get employer-provided coverage.

# 18 Risks faced in retirement.

## RISKS ASSOCIATED WITH AGING

### RISK 5: LONG-TERM CARE RISK

Chronic diseases, orthopedic problems, and Alzheimer's can restrict a person from performing the activities of daily living, which will require financial resources for custodial and medical care.

#### EXAMPLE

Because of physical or mental infirmities, you need help with basic activities such as dressing, taking a shower, or even eating. To get help, you may need to move to assisted living, a nursing home, or go to adult day care. Even if a family member can provide care, it might be a real financial burden for them, especially if they have to cut back on work.

#### FACTORS

- 70% of all people age 65 and older will need long-term care at some point.
- 80% of care provided at home is provided by unpaid caregivers who are primarily family members.
- The average unpaid caregiver spends 20 hours a week providing care, and this care is shown to negatively impact the caregiver's own health and career.
- Less than 10% of those aged 65 have long-term care insurance.
- Average length of long-term care:
  - 2.2 years for male
  - 3.7 years for female
- \$85,776 – U.S. average for one year in a semi-private U.S. nursing home room.
- Alzheimer's is the number one cause of need for long-term care.

#### SOLUTIONS

- Planning for long-term care:
  - The first step when planning for long-term care is to understand the risks and costs associated with long-term care.
  - The client needs to determine how he wants to pay for long-term care and how care will be delivered.
  - It is important to take inventory of funding sources available such as long-term care insurance, family members willing to provide care, the option of using a reverse mortgage to fund long-term care costs, and whether government programs are available to pay for services.
- Buying insurance as a solution. When looking to purchase long-term care insurance, there are a variety of decisions that need to be made.
  - An important question is when to buy it. Purchasing in a client's fifties keeps the cost down and provides a better chance that the client will be healthy enough to purchase the product.

# 18 Risks faced in retirement.

## RISKS ASSOCIATED WITH AGING

- Other decisions regarding long-term care insurance include the amount of the benefit, how care can be provided, whether to include inflation protection, the length of the elimination period and the length of time that benefits will be provided.
- A well-developed and planned out long-term care insurance policy can help alleviate the stress of financing long-term care costs and can help protect other aspects of the retirement plan.
- Government solutions as an option:
  - The government is actually the largest funding source for long-term care needs. Medicare only covers a very limited amount of long-term care services, but not for an extended period of time.
  - Medicaid, however, is the number one financing source in the U.S. for long-term care expenditures. However, in order to receive Medicaid long-term care funding you must essentially be impoverished and out of money. While there are some Medicaid spend down techniques designed to protect an individual's assets from complete exhaustion this type of planning needs special attention from a knowledgeable professional.
  - State partnership long-term care insurance programs can help protect assets from Medicaid spend down while at the same time providing a higher level of long-term care than normally available under Medicaid.
  - Veterans programs also offer long-term care services to veterans when available.
  - Additionally, other government programs run through the Administration on Aging can also help with long-term care needs.
- Other solutions for long-term care costs:
  - Self-funding is another option for long-term care financing. This is the option that most people rely upon, with a backup plan of relying on Medicaid when out of money. Setting aside funds specifically earmarked for long-term care expenditures can be a good plan if you can appropriately identify the amount you will need for services.
  - Some states have set up single purpose reverse mortgage programs designed specifically for funding long-term care expenditures.
  - Purchase a hybrid or linked benefit product such as a long-term care insurance and annuity product or a long-term care insurance and life insurance product. These products can help fund the costs of long-term care and serve another function such as providing income for a life or a death benefit. In some cases an individual can 1035 exchange an existing policy into a hybrid policy to create an additional long-term care funding option.
  - Some continuing care communities offer contracts that provide for long-term care services at below current market price. These usually have a significant up-front fee as an offset against the lower-cost care later.
- Managing costs as a solution:
  - Having good health insurance and maintaining healthy habits can help reduce the risk of long-term care disabilities such as a stroke or diabetes.
  - Putting in ramps or disability-outfitted bathrooms might allow an individual to live in his or her home for a longer period of time and reduce overall long-term care expenditures.
- Because long-term care can be extremely expensive, in most cases there will not be a one shot solution for long-term care

# 18 Risks faced in retirement.

## RISKS ASSOCIATED WITH AGING

### RISK 6: FRAILITY RISK

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Frailty risk is the risk that as a result of deteriorating mental or physical health, a retiree may not be able to execute sound judgment in managing her financial affairs and/or may become unable to care for her home.

#### EXAMPLE

- At some point later in life, you might have trouble remembering to pay bills or have difficulty balancing your checkbook. Filing complex medical insurance claims or making sound investment decisions might become more difficult. Also, making complex medical decisions can become more difficult.
- You own a big home and you begin to find cutting the grass or shoveling the snow more difficult and you can't find someone to do these chores without paying an exorbitant amount. You lose the ability to drive, and since you live in the country it becomes difficult (and expensive) to get around.

#### FACTORS

- A University of Michigan Study shows 1/3 of those aged 65+ suffer from frailty. As such, frailty in retirement is a real risk and impacts people early on in retirement. Additionally, the majority of retirees will suffer from frailty at some point during their retirement.
- A UK Study shows the longer you are retired, the more your mental health decreases; working longer can help hold off frailty. As such, the risk of frailty can exacerbate other retirement risks such as retiring earlier than expected and increased costs as the individual will need help to care for him or herself.

#### SOLUTIONS

- Having others step in to make decisions may mean involving a family member, hiring a daily money manager, or even selecting a corporate trustee to make investment decisions.
- Giving someone control is generally done with a power of attorney, which is either currently in force (durable power) or becomes effective only when the individual is no longer able to make decisions (springing power).
- Having assets in a living trust is another option, and the retiree can remain the trustee until he or she decides to step down in favor of a prechosen successor trustee.
- Preplanning with the documents described here is critical to avoid having to go through a court incompetency hearing in which a court-appointed guardian is chosen.
- Simplifying finances can also be helpful by using direct deposit for income payments and automatic withdrawals for regular bills. Some retirement products are simpler to manage as well, such as an immediate life annuity.



# 18 Risks faced in retirement.

## RISKS ASSOCIATED WITH AGING

- Household management solutions for addressing frailty can include:
  - Family members chipping in with chores.
  - Hiring others to handle household chores such as mowing the lawn or cleaning. Seniors hiring contractors and others for home maintenance need to be careful—this is an area of significant financial abuse.
  - Choose alternative housing with lower maintenance such as townhouses and condominiums.
  - Senior housing developments may offer robust services, and continuing care retirement communities offer an aging-in-place solution as needs change with age.
  - House sharing may be another way to share expenses and chores.



# 18 Risks faced in retirement.

## RISKS ASSOCIATED WITH AGING

### RISK 7: FINANCIAL ELDER ABUSE RISK

The possibility that an advisor, family member, or stranger might prey on the frailty of the client, might recommend unwise strategies or investments, or might embezzle assets.

#### EXAMPLE

James, under the guise of taking care of his elderly father, abuses his power of attorney to acquire assets for his drinking and gambling problem.

#### FACTORS

- The estimates of the annual loss due to elder financial abuse vary from about \$3 billion from a Metlife Mature Market institute study, to \$36 billion, from a study from TrueLink that used a broader definition of abuse.
- Many victims are never the same emotionally after being taken advantage of by someone they trust.
- The typical victim is a woman aged 70 to 89. However, victims represent a diverse profile, including older men. The problem also exists across all ethnic and socioeconomic groups.
- Families, friends, neighbors, and caregivers were the most frequent perpetrators (55%) of elder financial abuse.
- Sixty percent of family perpetrators are adult children. Crimes often involve misuse of powers of attorney, stealing money, using credit cards, and borrowing against the elder person's home.
- Elder financial abuse perpetrated by businesses can involve large sums of money, and one perpetrator can have hundreds of victims.
- Abuse may be brought about because the person is too polite to push back when necessary or because the person is lonely.
- Acquaintances and strangers that commit elder financial abuse often have excellent persuasion skills.
- Elder financial abuse goes unreported because people are embarrassed, they do not want to send a family member to jail, they fear losing their care, or that perpetrator may harm them more.

#### SOLUTIONS

- Retirees can protect themselves from financial elder abuse in a number of ways:
  - Stay organized—keep close track of all possessions, money, and assets.
  - Open and send own mail.
  - Complete and sign own checks.
  - Set up direct deposit for regular checks.
  - Use voicemail to screen calls.

# 18 Risks faced in retirement.

## RISKS ASSOCIATED WITH AGING

- Make sure that wills, advanced directives, and powers of attorney are executed to ensure that trusted individuals will step in to make decisions when needed.
- Learn about where to go if abuse is expected and be willing to ask for help from the police and adult protective services.
- Steps that Financial Advisors can take to help protect their clients against financial elder abuse:
  - Educate clients about their risks and the risks of financial elder abuse. The client can be better prepared to identify and avoid fraud, abuse, and scams.
  - Help the client set up a plan for when he cannot continue to manage his financial and other affairs.
  - Pay attentions to changes that might indicate signs of elder abuse.
  - Stay appraised of current trends in abuse and how to prevent them.
  - Seek assistance from social workers, government agencies, others when appropriate.
  - Report cases of abuse.



# 18 Risks faced in retirement.

## INVESTMENT RISKS

### RISK 8: MARKET RISK

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The risk of financial loss resulting from movements in market prices.

#### FACTORS

- In a research study, Wade Pfau showed the impact of market risk on retirement income planning. Looking at 151 hypothetical portfolios, each earning market returns, with the only difference being the 30 years measured, the amount accumulated at retirement varied substantially—the average accumulation was 10 times salary, but outcomes ranged from 3 to 27 times salary depending upon the 30-year period tested.
- The impact of the specific rates of return in the final years of accumulation when the value was the highest had the most impact on the ending value at retirement.
- Taking the same portfolios forward (into retirement) another 30 years, using a constant inflation-adjusted withdrawal strategy, he also found that the actual maximum sustainable withdrawal rates over 30 years ranged anywhere from 1.9% to 10.9%. Sustainable withdrawal rates are disproportionately explained by the returns in the early part of retirement.
- So you can say that market risk and the risk of bad timing of returns is most acute in the final years prior to retirement and the first few years of retirement.
- Even though market risk creates some uncertainty, other research shows that retirees may not be able to afford not to take some market risk—as research shows that Increasing equity exposure generally improves portfolio sustainability and ending wealth and is a key to address the risk of inflation.

#### SOLUTIONS

- One approach to address this challenge in retirement income planning is to choose a bifurcated investment strategy, with investments and products with little or no market risk chosen to meet basic needs and more market risk taken to address discretionary and unexpected expenses and legacy goals. With this approach, basic expenses can be met with Treasury or other low risk government bonds, buying annuity income, or even deferring Social Security benefits.
- Other ways to reduce market risk include:
  - Have the lowest exposure to equities in the years nearest retirement age—where a bad order of negative returns can have the most negative impact.
  - Consider market conditions when choosing how much to withdraw, lowering withdrawals in bad years reduces the risk of failure.
  - Purchase downside protection for the portfolio with derivatives and income riders in deferred annuities.

# 18 Risks faced in retirement.

## INVESTMENT RISKS

### RISK 9: INTEREST RATE RISK

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Technically, this is the risk that arises for bond owners from fluctuating interest rates. How much interest rate risk a bond has depends on how sensitive its price is to interest rate changes in the market.

#### FACTORS

- When interest rates are low (as they are today), if interest rates rise, values of individual bonds and bond mutual funds will decrease.
- If fixed income investments are reinvested, a related risk— referred to as reinvestment risk—arises. This is the risk that when it comes time to reinvest fixed income investments, interest rates may be lower.
- In retirement income planning, interest rate risk is also considered the risk that the returns on fixed income investments vary and at times can be quite low.

#### SOLUTIONS

- Interest rate risk in the technical sense can be eliminated by holding bonds to maturity and liquidating the bonds to meet income needs. Bonds are used this way in a strategy referred to as asset dedication.
- When bond investments are going to be reinvested, there is some ability to offset interest rate and reinvestment risks— using a strategy called immunization.
- In the long-term low interest rate environment of today, current retirees probably think of interest rate risk as the risk that they can't earn enough to meet their needs with fixed income investments. Today's retirement income strategies that focus on a total returns approach are in some ways a reaction to today's low interest environment.



# 18 Risks faced in retirement.

## INVESTMENT RISKS

### RISK 10: LIQUIDITY RISK

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Liquidity risk is the inability to have assets available to financially support unanticipated cash flow needs.

#### FACTORS

- Liquidity may be considered a risk or just a characteristic of an investment—the ability to sell the investment at a reasonable value quickly.
- With regard to specific investments, the issue of liquidity comes up in several contexts. First there are definitely assets that may not be able to be sold quickly at a fair market value. Real estate and business interests come to mind. The other context is with annuities. Life annuities have traditionally offered no liquidity, although that is now changing with some products offering a limited ability to liquidate. Deferred annuities offer liquidity, but surrender charges can reduce the value.

#### SOLUTIONS

- Planning for having sufficient liquidity is an important part of a retirement income plan, as we know that retirement comes with unexpected expenses and the need to be able to sell investments.
- Planning should definitely consider what assets are available if liquidity is needed. Besides having a cash reserve or liquidating investments, other alternatives for a short-term need can be borrowing from a life insurance contract, a home equity line of credit or reverse mortgage line of credit or borrowing from a margin account.
- One of the often touted advantages to taking systematic withdrawals from a diversified portfolio is that the strategy offers liquidity. Some would argue that if you are taking withdrawals from a portfolio that you don't really have liquidity as you need the assets to meet the withdrawal requirements.
- When talking about liquidity, most are also thinking about flexibility as well—that is, in the ability to change strategies in the face of new law changes, investment conditions or other reasons. Clearly a systematic withdrawal strategy offers flexibility.
- There are some planners that would say that having too much liquidity is a liability. It gives the retiree the opportunity to spend too much on themselves and their families, and gives those that would harm seniors the opportunity to take their money.

# 18 Risks faced in retirement.

## INVESTMENT RISKS

### RISK 11: SEQUENCE OF RETURNS RISK

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Financial market returns near the retirement date matter a great deal. Even with the same average returns over a long period of time, retiring at the start of a bear market is very dangerous because your wealth can rapidly deplete, leaving little to benefit from any subsequent market recovery.

#### FACTS

- Investment returns become more important to the success of the portfolio during the time period that the portfolio is at its largest. This is referred to as the retirement risk zone, which is generally the 10-year period before and the 10-year period after retirement begins.
- Negative investment returns during this time will have a disparate impact on wealth accumulation and retirement income success.
- Managing risk during the retirement risk zone becomes an important way to address sequence of returns risk.

#### SOLUTIONS

- Sequence of returns risk is tied in part to portfolio volatility. Reducing volatility in the retirement portfolio reduces sequence of return risk. This can be done by purchasing life annuities or buying bonds to build a specified income stream over a specified number of years in retirement.
- Choose a withdrawal strategy from the portfolio that allows for adjustments for market volatility.
  - A common way to define the withdrawal rate is an inflation-adjusted withdrawal each year based on the initial portfolio value. This approach provides for steady income that keeps up with inflation, but is inefficient when withdrawals are from a volatile portfolio and creates more risk.
  - Sequence of return risk can be eliminated entirely by choosing a withdrawal rate that is a specified percentage of the current portfolio value (so, for example, each year you withdraw 5 percent of the current portfolio value). The problem with this approach is that the amount withdrawn each year may vary significantly and it may not meet the client's income needs.
  - So a compromise is to start with the standard withdrawal definition—and then make some minor adjustments based on market conditions.
- Provide for downside protection in a portfolio. This can include using derivatives and purchasing deferred variable annuities with living benefit riders that provide minimum income benefits on deferred variable annuities or indexed annuities.

# 18 Risks faced in retirement.

## WORK

### RISK 12: FORCED RETIREMENT RISK

There is always the possibility that work will end prematurely because of poor health, disability, job loss, or to care for a spouse or family member. This event can quickly derail a retirement plan.

#### EXAMPLE

- Peggy plans to work until age 65, but her long time employer suddenly closes her office when she is 61. There are very few employers needing her skills in the area, and she is unable to find suitable employment. Not only are her plans to accumulate more funds for retirement ambushed, but she may not be able to receive or afford health care coverage until she is eligible for Medicare.

#### FACTORS

- Prudential study
  - 51% retired early than planned
  - 46% cited health reasons
  - 30% cited job loss or early retirement offer
- EBRI—48% retire earlier than planned
  - 41% due to health or disabilities
  - 26% due to downsizing or closures
  - 23% for caregiving responsibilities

#### SOLUTIONS

- Given the statistics of how many retire earlier than planned—it is prudent to and come up with a plan for the unexpected.
- One way to do this is to show retirement readiness at different stages—with the goal of building resources to provide a reduced but adequate standard of living—let's say 10 years from retirement, a more comfortable standard of living 5 years prior to retirement and the desired standard of living at the planned retirement age. By setting the savings program up to meet graded goals, you may encourage the client to save earlier and to assess what the final years of work will mean to his/her retirement.
- Some job losses are inevitable, and for that contingency employees should pay attention to severance programs—and the possibility of negotiating for a better deal if there is a layoff.
- As workers age, it remains critical to stay current with skills and to learn new ones to make sure that they remain a valuable part of their organization.
- In case looking for new work becomes necessary, it's also important for older workers to stay ready for this contingency by taking steps to maintain professional networks and keep a resume polished.
- Many health concerns that shorten a career are unavoidable—but not in all cases. If work is so critical to retirement security, maintaining healthy eating, weight management, getting enough sleep and exercising regularly becomes an important part of retirement security.
- To maintain health, older workers may want to consider making changes that allow them to work longer. This can mean taking more time off, reducing responsibilities, or cutting back on clients.

# 18 Risks faced in retirement.

## WORK

### RISK 13: REEMPLOYMENT RISK

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Many retirees plan on working in retirement. Reemployment risk is the inability to supplement retirement income with employment due to tight job markets, poor health, and/or caregiving responsibilities.

#### EXAMPLE

- Robert is an avid wood worker who had intended to make furniture and sell it on eBay throughout his retirement. However, poor physical health impeded his ability to practice his craft.

#### FACTORS

- EBRI work in retirement
  - 79% reported expecting to work
  - 29% of retirees are actually working
- Reasons for work in retirement
  - Stay active and involved (90 percent)
  - Enjoyed working (82 percent)
- Retirees also identified financial reasons for work
  - wanting to buy extras (67%)
  - a decrease in the value of savings or investments (23%)
  - needing money to make ends meet (42%)
  - keeping health insurance or other benefits (13%)
- Many retirees have an informal phased retirement by taking consulting positions, part-time jobs, or turning hobbies into profitmaking activities
- Working part-time may result in a reduction in pay but with increased job satisfaction.

# 18 Risks faced in retirement.

## WORK

### SOLUTIONS

- Based on the statistics, planning on significant employment income in retirement may be unrealistic for some. Jobs may be unavailable or the client maybe unable to work.
- If the client really needs income to meet retirement objectives, it may be best to postpone retirement from a career job that pays better and offers health insurance and other benefits.
- For those looking to work in retirement, be sure to use available resources to find employment opportunities that are meaningful and meet income requirements. Books like “What Color Is my Parachute in Retirement,” and websites like AARP can be quite helpful.
- It’s also important to be open to learning new skills to be successful in the job market.
- It’s important to recognize that work in retirement can have important rewards other than money. The retiree may use a job to add some purpose, fill time, or build a social network.





# 18 Risks faced in retirement.

## WORK

### RISK 14: EMPLOYER INSOLVENCY RISK

Employer-provided retirement benefits are an important part of retirement security for many. If the employer has financial problems, employees may lose their jobs and in some cases their benefits.

#### EXAMPLE

Larry is a retired schoolteacher in Illinois. The teacher's plan has serious funding problems. Larry wakes up every morning and looks for news about what is going to happen with his pension.

#### FACTORS

- Benefit security with private employers:
  - Benefits are very secure with qualified defined benefit plans as assets are held in an irrevocable trust, subject to minimum funding requirements, and the PBGC guarantees benefits.
  - Benefits are very secure with qualified defined-contribution plans as assets are held in an irrevocable trust outside of the control of the employer and its creditors.
  - Executive nonqualified benefits are not as secure as employees are general creditors in the case that the company has financial difficulty.
- Benefit security with municipal governments:
  - Municipalities can file for bankruptcy and ultimately benefit security is based on how the bankruptcy judge prioritizes pension claims.
  - Benefits in some cases have been reduced.
- Benefit security with state governments:
  - States cannot file for bankruptcy.
  - Benefit security is tied to state law—most give earned benefits a high level of priority if the state has trouble meeting all of its obligations.

#### SOLUTIONS

- There are limited steps to take to protect pension benefits—but in many cases pensions are quite safe.
- For those who work for a private employer and are covered by a defined-contribution plan, maybe the best advice is avoid or at least minimize exposure to company stock. As economists will point out, having your human capital (earnings from employment) and your financial capital tied up with the employer is taking on too much risk.
- When an employee retires, she may feel like she wants to elect a lump sum benefit because she doesn't trust that the plan and employer will pay her pension. But with privately sponsored plans covered by the PBGC, the employee is better served to choose the distribution option that best fits her needs.

# 18 Risks faced in retirement.

## WORK

- Executives that participate in nonqualified plans do have to pay attention to company finances. If the plan calls for employee salary deferral contributions—the executive needs to think carefully before participating. If the benefit is a supplemental benefit provided by the employer, the executive does not have much control—but will want to pay attention to options regarding the timing of payout.
- Government entities can sponsor 457 plans. Government sponsored 457 plans have to hold assets in an irrevocable trust, and benefits can be rolled into an IRA in retirement. Note that this is not true for a 457 plan sponsored by a nonprofit entity. With nonprofits, these plans operate more like nonqualified deferred-compensation plans.
- With publicly-sponsored plans, there is somewhat less security than with defined-benefit plans. Here, especially with municipality plans, if the entity is in financial distress now a lump sum option versus taking an annuity may be an appropriate consideration.



# 18 Risks faced in retirement.

## FAMILY

### RISK 15: LOSS OF SPOUSE RISK

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The loss of a spouse is a major personal loss, but without planning can also result in a decline in economic security.

#### EXAMPLE

Eric retired at age 65 and began to receive a company pension. To increase monthly benefits, he chose the single life annuity, which ceased upon his death, cutting his spouse's income drastically as she no longer had any pension income and Social Security benefits were reduced as well.

#### FACTORS

- Society of Actuaries surveys find that people do not comprehend the financial magnitude of a loss of a spouse.
- Loss of a spouse always means a reduction in Social Security benefits as the smaller benefit that is being paid ceases at the death of the first spouse.
- The surviving spouse may not have the knowledge, ability or interest in managing finances.
- Women from the baby boom generation could be widows for as long as 15 to 20 years.
- 15% of elderly widows in poverty—only 4% of couples are in poverty.

#### SOLUTIONS

- Clearly planning for a solution involves ensuring that income needs are satisfied for the surviving spouse. There are a number of ways to accomplish this, but one fact is sure: both spouses need to be involved in the process of building the retirement income plan. If one of the spouses is not comfortable with making financial decisions, the plan needs to address this issue as well.
- Another part of the plan involves proper estate planning to make sure that wills, trusts and beneficiary designations have been properly completed to protect the spouse.
- In terms of the financial plan, there are number of ways to protect the spouse. One is to make sure that Social Security decisions maximize the survivor benefit. As Social Security continues to pay the larger of the two benefits, a key planning strategy is to defer the larger benefit to maximize the survivor benefit.
- Another way to increase income to the survivor is to choose joint-and-survivor options when electing pension benefits. Unfortunately, many elect single life to increase the benefit. Also, income annuities can be purchased with a joint lifetime payout.

# 18 Risks faced in retirement.

## FAMILY

- Life insurance can provide benefits for a survivor. If permanent life insurance is purchased on both lives, the death benefit at the first death can provide income to the survivor, and if more income is needed the cash value on the other policy can be used to meet income needs. There are also some companies selling first-to-die policies to meet this type of survivor income need.
- Continuing to take systematic withdrawals from the retirement portfolio is another strategy. It's important when setting up and monitoring this plan that the joint lifetime horizon is considered.
- A contingency fund, set aside to meet the uncertainty of longevity, may also be available to meet this need. Another contingency plan is to use home equity to support the surviving spouse through a reverse mortgage or simply by selling the home to support alternative housing or care needs.
- Long-term care planning for the surviving spouse is more critical, as she will not have her spouse to care for her. Some long-term care policies allow couples to pool benefits, so if benefits haven't been used up for the first spouse to die, they can be used by the second spouse.



# 18 Risks faced in retirement.

## FAMILY

### RISK 16: UNEXPECTED FINANCIAL RESPONSIBILITY RISK

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Many retirees have additional unanticipated expenses during the course of retirement, in many cases due to family relationships and obligations.

#### EXAMPLE

Lisa's adult child, a single mother, loses her job and needs assistance. Lisa decides to pay her daughter's mortgage until she gets back on her feet. Lisa wants to validate that she can afford this expense. She does not want to be in the position to help her children early in retirement only to become a financial burden to her children later in retirement.

#### FACTORS

- Six in ten (62%) aged 50+ today provide financial support to family members.
- Older adults are concerned about running out of money and being a burden on their families.
- 5.8 million children live in grandparents' homes.

#### SOLUTIONS

- Figuring out how much retirees want to help their families financially is an issue that should be part of the retirement income planning process—and it is critical to get the perspective of both spouses. How much to give, what to give, when to give it and who should get it are all questions that need to be answered.
- This needs to be done in the context of balancing family needs with financial security in retirement. Building a sustainable retirement income plan helps to make it clearer how much money is available. Also, framing the issue in terms of “giving too much can lead to financial dependence on children later” helps to make the boundaries clearer, too.
- Once these decisions have been made, clients should in many cases have conversations with family members—and an advisor can help to facilitate these conversations.
- Addressing those truly unexpected family circumstances is not as easy. But here the value of having built a clear retirement income plan that the couple buys into may really pay off when having to make quick decisions when the unexpected arises.
- Second, clients should be encouraged beforehand to reach out to their advisors when such events arise. Just taking the time to meet with a more dispassionate third party can help provide some emotional distance when important financial decisions have to be made.
- The advisor can also help identify both the short-term and long-term consequences of decisions. What is so different about retirement is that unless going back to work is an option, resources are finite and cannot be replenished.
- In a crisis help doesn't always have to mean financial support. Retirees can help their adult children and grandchildren by providing emotional support, help with chores and have the time and distance to look for outside resources that can help.



# 18 Risks faced in retirement.

## OTHER

### RISK 17: TIMING RISK

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Also known as point-in-time risk, timing risk considers the variations in sequences of actual events that can have a significant impact on retirement security. There are just some factors outside of your control. Depending upon when you retire, you may, for example, face high inflation or low interest rates.

#### EXAMPLES

- Patty retired in 1974. For every \$1,000 per month of income she needed required \$3,379 25 years later (1999).
- Mary Lou retired in 1986. For every \$1,000 per month she needed required \$2,064 25 years later (2011).
- For Mary Lou, prices increased 206%. For Patty, prices over the same number of years increased 337%!

#### SOLUTIONS

- In many cases, clients are not in a position to exert control over point-in-time risk. The impact of high inflation and black swan market events is a “luck of the draw” problem.
- Adapting to current conditions is a primary reason to work with a planner who has the skills to navigate changing conditions.
- You can argue that timing risk weighs in favor of addressing retirement needs when you can afford it. For example, if market conditions are good 5 years prior to retirement, maybe it’s time to lock into a deferred income annuity to eliminate some timing risk.
- It’s also important to monitor a plan regularly so that you can adapt to changing conditions—quickly.
- As with the discussion of public policy risk, there are a number of strategies for building in planning for uncertainty. One is building diversification in a retirement income plan, which includes diversifying investments, diversifying income solutions, and diversifying types of accounts. It is also important to retain enough flexibility and liquidity in the plan to react to changes as well. Having a cash reserve provides a cushion and so does a contingency fund—using some of the same strategies that we discussed before.

# 18 Risks faced in retirement.

## OTHER

### RISK 18: PUBLIC POLICY RISK

An unanticipated change in government policy with regard to tax law and government programs such as Medicare and/or Social Security can have a negative impact on retirement security.

#### EXAMPLES

- Walt has saved diligently for retirement only to find the government has adopted “means testing” and he is no longer eligible for certain programs because his income is too high.
- Kathy, who has decided to age in place, may be affected by significant increases in property taxes.

#### SOLUTIONS

- It may not be any easier to predict changes in public policy than it is to predict other risks. However, in some cases there are political or economic realities that do foretell possible changes. In this case taking these into consideration in the planning process can be the responsible course of action. When projecting Social Security benefits for a 30-year-old, for example, it makes perfect sense to discount current benefits somewhat.
- At the same time, it’s important to consider whether changes will have any grandfathering provisions. Again going back to Social Security, in the past when changes were made to the system, they did not affect those in or near retirement. However, other provisions, like tax rate changes under the federal income tax system typically do not have grandfathering provisions. Also, there may be prospective effective dates providing some planning opportunities.
- The role of the advisor here—and a clear advantage for a client working with an advisor—is to stay current on policy changes, planning opportunities and effective dates, and the impact that the change will have on the plan.
- It’s hard to plan for future law changes, but there are several options in the tax area. One is to use tax-free investments such as municipal bonds so that if marginal tax rates increase that income will not be affected. Even better is to use Roth IRAs and Roth Accounts to get tax-free growth—which allows the taxpayer to prepay taxes—locking into current rates, in case future tax rates increase. The one caveat here is that if the tax system changes with new taxes added such as a consumption tax—then the Roth tax vehicle does not protect against additional taxes.
- Adding Roth IRAs also creates some tax diversification—providing for a hedge if tax laws change. With uncertainty, having a combination of taxable, tax-deferred and tax-exempt accounts allows for better planning in times of change. You can argue that having diversification in other ways in a retirement income plan may provide some of that same protection—for example, having annuities, life insurance, cash and a diversified portfolio from which systematic withdrawals are taken can provide against policy changes that affect any of these resources separately.
- At the same time, it is important to retain enough flexibility and liquidity in the plan to react to changes as well. Having a cash reserve provides a cushion and so does a contingency fund—using some of the same strategies that we discussed before.



## Key Factors Impacting Retirement Age Choice

Most people chose a retirement age based on a traditional age of 65. However, choosing an optimum retirement age should consider when income resources are sufficient, and how much you value work versus leisure. The decision is a trade-off of your unique goals, values, and financial circumstances and how much uncertainty you can accept.

### **Factor 1—Calculate your potential retirement income and assess lifestyle needs and wants.**

Look at the bottom line of how much you need to provide a quality lifestyle under the proposed withdrawal strategy. Take an inventory of your existing resources including Social Security, pension income, financial assets, and nonfinancial assets such as your house. Make sure basic expenses are completely covered and then determine a sufficient income beyond that floor.

### **Factor 2—Consider life expectancy, future expenditures, and risk of living too long.**

Most people seriously underestimate their personal and joint longevity. The risk of dying broke increases with a long life.

### **Factor 3—Analyze the financial condition of your investment portfolio.**

In your decision, you must consider sequence of returns risk. The decade before and after retirement is especially important. You should be more hesitant to retire when markets are expected to decline (and vice versa) and if you have pension income.

### **Factor 4—Evaluate carefully your debts and potential liabilities.**

Consider your balance sheet (assets and liabilities); more liabilities mean more repayment risk during retirement. In order to minimize risk and cash flow issues in retirement, you should extinguish mortgage and other major debt prior to retirement.

### **Factor 5—Determine the availability of health insurance.**

Adequate medical and long-term care insurance is fundamental to minimizing contingent risks. This is a linchpin decision. There is an incredibly strong link between affordable health insurance coverage and the retirement age choice.

### **Factor 6—Evaluate the impact of various Social Security claiming age decisions.**

It is important to distinguish between the Social Security claiming age and the optimal retirement age. Realize that the two are not inextricably linked. The Social Security claiming age is a different and separate decision from the retirement age decision. A delay from 62 to 70 will increase benefits by at least 76 percent, and likely more if you keep working those years.

### **Factor 7—Assess your employer's (or past employers) retirement plan and features.**

Each type of employer plan has unique features that must be examined. For instance, is the benefit indexed for inflation? What are the survivor benefit options? Researchers have found that defined-benefit plans tend to have age-related work incentives and disincentives, that first encourage work, and then encourage retirement even when it may not be ideal for you.

### **Factor 8—Examine your future earnings prospects and potential.**

Balance the financial benefits of continued work versus the desire for leisure. When financial benefits such as large salaries or deferred compensation are greater, choosing leisure is less attractive.

### **Factor 9—Appraise the availability of a phased retirement program.**

The potential to work part-time or working elsewhere part-time may influence the choice of a retirement age.

### **Factor 10—Consider the likelihood of early retirement incentives.**

Early retirement incentives are often a tipping point, but long-term financial viability during retirement must also be analyzed.

### **Factor 11—Assess the likelihood of your job terminating suddenly and prematurely.**

Career planning is inseparable from retirement planning. Evaluate the industry and employer tendencies. People will change employers or employment positions about 50 percent of the time after their age 50.

### **Factor 12—Assess job satisfaction and the effect on you if you're being constructively retired.**

You can find yourself fed up with work or changes in the work environment or you can be constructively evicted from your job by an employer creating an intolerable situation so you "can't take it anymore." The positivity effect is as you get older, you have less patience for life's negatives, so you have a greater impulse to just quit. An emotional decision may be a mistake.

### **Factor 13—Assess whether you are or will be healthy enough to continue working to a target date.**

Poor health has a negative effect on expected retirement age. About one-fourth of workers retire by their mid-60s due to health limitations. This is much less of a concern for those with higher incomes or better education.

### **Factor 14—Assess whether your fear of impending health problems may dictate an earlier retirement.**

Some people choose a retirement age based on their perception that they only have so many good years left and they want to enjoy more time with good health during retirement to fulfill some lifelong goals. Retiring with good health has a secondary impact of requiring extra resources to maximize the use of that additional healthy leisure time.

**Factor 15—Assess whether you or your family may need to provide caregiving for an aged parent.**

Caregiving may require early retirement so that you can “be there” for a loved one. Caregiving, however, may also require you to work longer to pay for the care of a loved one, such as a parent. Nearly 20 percent of those who left the workforce early did so to care for a loved one. You should prepare for an unexpected “curve ball” that impacts your chosen retirement age.

**Factor 16—Evaluate whether you or your family will need to raise grandchildren or care for a special needs child.**

Grandparenting may require an earlier retirement age to provide care or work until a later retirement age to garner extra resources. Grandparenting is an underrecognized responsibility that affects many older people. Over 6 percent of children under the age of 18 are living in grandparent-headed households. Special needs children require a lifetime trust arrangement.

**Factor 17—Evaluate your ability to adapt to a retirement lifestyle.**

Both spouses need to take time to seriously imagine and visualize what the “next phase” of life will look like for many years ahead. Many will try to fill the time with another work project. Try out what it is like to have a sustained leisure period. It is hard to “unretire.”

**Factor 18—Understand your willingness to work and your desire for leisure.**

Tradeoffs of willingness to work and desire for leisure must be carefully balanced for an optimal retirement age.

**Factor 19—Balance work satisfaction and retirement satisfaction.**

This tradeoff is the emotional component of leisure and work—what you feel about your status and social life.

**Factor 20—Assess the identity, fellowship, and status you receive from work.**

Retirement may undermine your sense of self-worth and leave you with an enormous sense of loss. Work is different today than in the past. More highly educated people achieve greater identity and status from work. That must be replaced with something else.

**Factor 21—Examine the level of desire both spouses have to jointly retire.**

Often we are not talking about the retirement of only one person; we are talking about the retirement of a couple. Joint retirement where the husband and wife retire simultaneously is highly desired by many couples since they want to spend more time together. Younger wives may keep older men in the labor force longer than they would otherwise choose to work.

**Factor 22—Consider your (and your spouse’s) willingness to compromise on financial and lifestyle goals.**

While many think they can do it, will you really sustain reduced spending for a lesser lifestyle? Stress test life on a reduced budget for 12 to 18 months prior to the actual retirement target age to see if it is even workable for your joint lifestyle.

**Factor 23—Perform stress testing with a Monte Carlo analysis to evaluate levels of retirement success.**

Assess whether the “draw-down” strategy will work. Annuities and longevity insurance increase your guaranteed income. Your Social Security “annuity” may be the best annuity to “buy” by deferral if interest rates continue to remain low.

**Factor 24—Get professional help from a specialist to make the most informed retirement decision.**

Most people view their retirement age as measured by their actual age. More realistically, you should think about a potential retirement date as a ratio of work to retirement or longevity (not years from birth, but years to death). A longevity analysis or ratio analysis can give a better framework to better decide what is your optimal retirement age decision.

**Paul Byron Hill, MBA, MFP, MSFS, ChFC®**

CEO | Certified Financial Planner™

Wealth Management Certified Professional™

**Kam-Lin K. Hill, MBA, ChFC®, CFP®**

Chartered Global Management Accountant

Accredited Wealth Management Advisor™

**Professional Financial Strategies, Inc.**

Powder Mill Office Park

1159 Pittsford-Victor Road, Suite 120

P. O. Box 999

Pittsford, NY 14534

**(585) 218-9080**

planning@ProfessionalFinancial.com

**www.ProfessionalFinancial.com**



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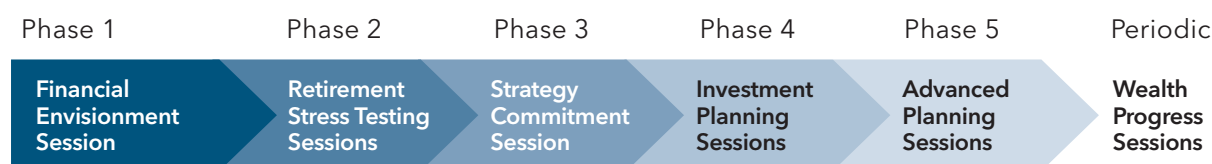


**Paul Byron Hill**, MBA, MFP, MSFS, ChFC®, RICP®, CFP® is a nationally recognized Wealth Management Certified Professional™ and Certified Financial Planner™ Professional, written about in *Fortune*, *Forbes*, *Bloomberg Businessweek*, and *Money*. As co-author of *Retire Abundantly*, Paul was interviewed by James Malinchak, of ABC-TV's hit series, *Secret Millionaire*, and by Dimensional Fund Advisors for their "Value of an Advisor" series. Reuters AdvisePoint has recognized Mr. Hill as one of 500 "Top Advisers" and prominently featured him on their website.

Paul founded Professional Financial Strategies, Inc. as one of the first fiduciary advisory firms in 1993 that now specializes in retirement and wealth planning for affluent and aspiring families. Paul is a personal chief financial officer who acts in the best interest of clients. He brings together a distinctive management process and a network of specialists for making informed decisions for scientifically-structured investing, secure income, mitigating taxes, protecting assets, and preserving wealth for family and causes that make an enduring impact.

Mr. Hill received a BA with distinction from the University of Rochester and later an MBA in finance from its Simon School of Business. He earned an MS in financial services from The American College along with his Chartered Financial Consultant and Retirement Income Certified Professional designations, and then received an MS in financial planning from the College for Financial Planning (now at the University of Phoenix). The College for Financial Planning appointed him as adjunct faculty, and he has taught at St. John Fisher College. Who's Who presented Paul with the Albert Nelson Marquis Lifetime Achievement Award in 2018 and featured him with other recipients in *The Wall Street Journal*.

## THE PROFESSIONAL WEALTH MANAGEMENT PROCESS



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