6 Financial Risks of Retirement

A lot of the discussion surrounding retirement planning focuses on how to build your nest egg. While it is certainly important to create a long-term financial plan spanning multiple decades, we believe there also needs to be a conversation with regards to safeguarding your nest egg once you do reach retirement. With that, we want to bring to your attention, what we consider to be the 6 Financial Risks of Retirement.

Risk #1: Longevity

Longevity is one of the biggest risks individuals face and represents the frightening thought that you could potentially outlive your assets. According to the *Center for Disease Control 2013 United States Health Report*, the life expectancy for men and women in 2010 was 76.2 and 81 respectively. In 2000 the life expectancy for men and women was 74 and 79.3, and in 1990 the life expectancy for men and women was 71.8 and 78.8. It is no longer uncommon for individuals to live well into their 90's. In order to minimize the risk of outliving your assets, your retirement plan should incorporate a longer life expectancy into your 90's. It may also be beneficial to consider delaying retirement by 1-3 years in order to accumulate more wealth.

Risk #2: Inflation

Most, if not all, of your living expenses will continue to increase as you continue to age, potentially risking your portfolio's purchasing power. It is important to review your portfolio in retirement to ensure your asset allocation has an appropriate mix of "inflation hedging" assets. It is important to have a mix of equities and income generating assets that are less susceptible to rising costs, such as master limited partnerships (MLPs), inflation protected securities, bank loans, etc. Higher income yielding securities may be less susceptible to interest rate increases and the equities portion may provide a greater potential for growth.

Risk #3: Rising Healthcare Costs

Healthcare costs add a level of risk to your portfolio that is similar, but within greater magnitude, than inflation. Inflation in the U.S., as measured by the Bureau of Labor Statistic's Consumer Price Index, has been about 3.3% since 1914 while healthcare has risen at an average of 5.45% since 1938. The rising cost of healthcare can quickly erode your portfolio as you age and require more medical services. It is important to continually shop for more affordable health insurance and take advantage of any prescription discounts available. Simply asking the drug manufacturer for a discount can yield surprising savings. Also, living an active lifestyle with regular exercise and social interactions can increase your overall health as you age.

Risk #4: Asset Allocation

It is important to have the proper asset allocation for your needs going into retirement. Do not wait until retirement to make changes. A sudden market fluctuation in an equity heavy portfolio could postpone your retirement for many years. Review your portfolio annually to ensure it continues to meet your income and/or growth needs in retirement. Additionally, you should rebalance your portfolio regularly to ensure you are maintaining the proper asset allocation.

Risk #5: Withdrawal Rate

Low interest rates may not be the only scenario causing you to withdraw funds faster than your next egg can sustain. The risk of not appropriately adjusting your expectation and lifestyle can quickly drain decades of retirement saving. Some things to consider might be whether it is appropriate to downsize your home to one with lower maintenance costs or perhaps it could beneficial to relocate to a more tax friendly state? It is important to continually adjust your living and spending habits in retirement to avoid making excessive withdrawals. Any opportunity to reduce your living expenses in retirement, improves the chances of your portfolio maintaining its purchasing power.

Risk #6: Elder Abuse and Fraud

Older people are prime targets for abuse and fraud. Elder abuse and fraud can range from outright theft of your financial assets to emotional and physical abuse. It is always important to do your due diligence before working with any caretaker, professional, or service provider. Obtain a second opinion from a qualified individual for any new service agreements and contracts. Be wary of any "friends" who may inquire about your personal habits and finances. Always try to surround yourself with your loved ones and include them in any major events or life changes that might occur.

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