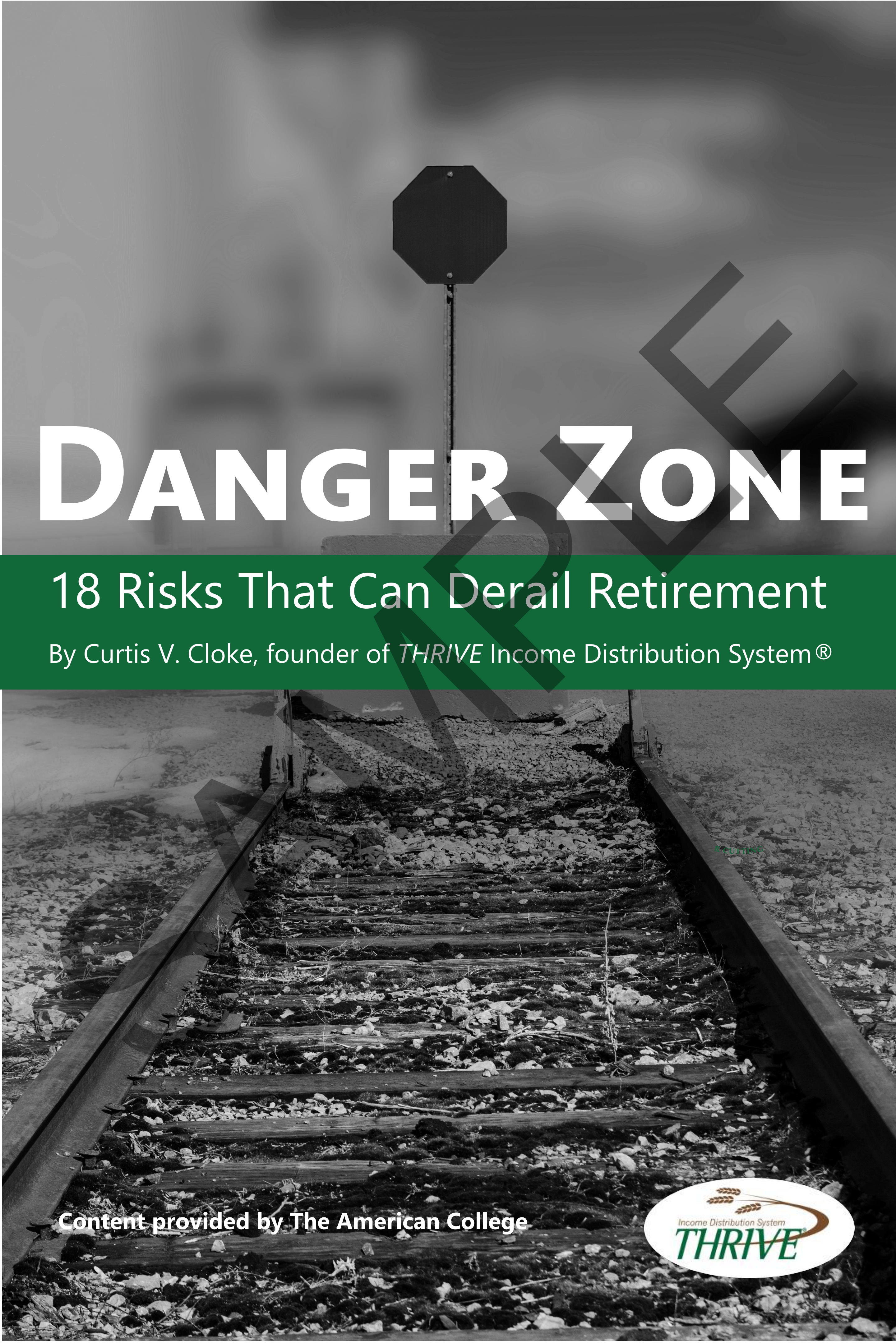


Danger Zone

18 Risks That Can Derail Retirement

By Curtis V. Cloke, founder of *THRIVE* Income Distribution System®

Content provided by The American College

Resources

Danger

Example

1. Longevity

No one knows exactly how long they will live. This makes planning difficult due to the fact that the length of time a retiree needs retirement income is unknown. Additionally, the longer they live, the longer they are exposed to other retirement risks.

Dave's 20-Year Retirement Plan			
Year	Current Age	Life Expectancy	Plan Projection
1999	65	17 Years	3 Year Surplus
2016	82	7 Years	4 Year Deficit

2. Inflation

Inflation is the silent thief. Over time, the cost of goods and services increase while most retirees live on a relatively fixed monthly income. This can dramatically decrease purchasing power.

Impact of Inflation on Cost of Goods	
Years from Now	4% Inflation
0	$1,000
1	$1,040
10	$1,480
20	$2,191

3. Excess Withdrawal

Supplementing longevity risk is the risk of withdrawing too much money. This can cause retirees to prematurely deplete their portfolio and reduce their ability to create future retirement income.

Maria and John read in the paper that the safe withdrawal rate in retirement is 8% and create a plan based on that number. In reality, they should be withdrawing at a much lower rate, most likely between 2 – 3%.

Forget the 4% Withdrawal Rule by Donna Rosato and Penelope Wang (02/26/14)

Based on studies of stock and bond returns since 1926, financial planners had settled on a benchmark for how much a retiree could spend each year without fear of running out of cash. It turned out that a person who invested half in stocks and half in bonds could spend 4% of his or her wealth in the first year, adjust that dollar amount for inflation in subsequent years, and still have money 30 years later. That worked in every historical 30-year period, as well as in most computer simulations based on the historical rate of return. Even drawing a hefty 5% worked more often than not.

But without strong stock and bond returns to help refresh your nest egg as you spend from it, those old numbers can't be relied on, argues [Wade] Pfau.

"The probability that a 4% withdrawal rate will work in the future is much lower," he says. His new safe starting point: a 3% drawdown. That means that if you've saved $1 million, you're living on $30,000 a year before Social Security and any other sources of income you might have, not $40,000. Ouch.

Health

Photo © Ian MacKenzie

Danger	Example
4. Health Expenses	
Retirement may mean paying more for medical insurance (Medicare Parts B and D and Medicare Supplement policies) than during the working years. Even with insurance, some expenses will be paid out of pocket, especially if unexpected illnesses or medical problems arise.	Jamie is diagnosed with cancer eight years into retirement. In the past, his employer provided health insurance plan would have covered everything. He is surprised to find out that this is not the case with Medicare and that he will have to pay a deductible and 20% of many of the expenses.
5. Long-Term Care	
Chronic diseases, such as Alzheimer's, can restrict a person's ability to handle activities of daily living. This can require them to allocate financial resources for custodial and medical care and place a particular burden on the individual's family or spouse.	John is diagnosed with Dementia and begins to require assistance with dressing, taking a shower, and eating. While initially his spouse is able to help him, his condition worsens and he has to move into an assisted living home.
6. Frailty Risk	
As retirees age their mental and physical health will likely begin to deteriorate. They may not be physically able to do their required tasks or mentally capable of making sound judgements.	Barbara is a widowed woman who is no longer capable of driving. She relies on her family for help but they can't drive her everywhere she needs to go. She is forced to pay for services to help her with her transportation needs.
7. Financial Elder Abuse Risk	
Family members, unscrupulous advisors or strangers might prey on older retirees with financial scams or bad investment advice.	Cindy takes care of her elderly father. She abuses her position of power to steal money from her father to help finance her shopping habits.

Investments

Danger

Example

8. Market Risk

Retirees can lose money saved for retirement in financial markets.

Ian invested the majority of his money in a hot new technology company that his neighbor told him was expected to achieve exponential growth. While the company did well for a number of years, it was highly overvalued and the shares recently declined by 50%.

9. Interest Rate Risk

Fluctuating interest rates can impact the value of bonds or other financial vehicles used to save for retirement or provide income.

Brian invested in bonds during a time period of low interest rates. However, interest rates began to increase over the next five years and the value of his bonds decreased.

10. Liquidity Risk

Liquidity risk is the inability to have assets available to provide financial support at the time it is needed.

Bonnie and Zach have saved a significant sum of money for retirement, but most of it is in stocks. Due to a decline in the market, they are unwilling to sell any of their stocks right now to fund their retirement. They want to recoup their original investment.

11. Sequence of Returns Risk

Sequence of returns impacts how long a portfolio will last. Once an individual is beginning to take withdrawals in retirement, significant loses in the early stages can derail the sustainability of their plan, even if they achieve higher returns later on in retirement.

$100,000 Portfolio with $10,000 Annual Withdrawal

Year	Market Gain or Loss	Value
1	-50%	$40,000
2	+100%	$70,000
3	-50%	$25,000
4	+100%	$40,000

Average Annual Return: +25%   Actual Dollar Return: -$20,000

Employment

Photo © Bryan Mills

Danger | Example

12. Forced Retirement Risk

There is always the possibility of forced retirement due to poor health, disability, job loss, or to care for a spouse or family member. This event can quickly derail a retirement plan.

Michelle plans to work until age 65, but her employer goes out of business when she is 59.

13. Reemployment Risk

For retirees planning on working in retirement, reemployment risk is the inability to obtain employment. This could be due to poor health, a lousy job market or other conditions.

Bob was hoping to continue working in a limited capacity at the local super market to supplement his retirement income. However, he cannot find any place hiring due to a bad job market.

14. Employer Insolvency Risk

If an employer has financial problems, employees may lose their jobs years before they are financially ready to retire.

George is an engineer for a large manufacturing company. Due to financial problems, they are forced to lay off 20% of their employees and George loses his job. He worries that the company may go under completely and whether they would still be able to pay his pension.

15. Loss of Spouse Risk

The loss of a spouse is a major personal loss and can also be an enormous financial loss without a proper plan in place.

Sue and Allen were enjoying a happy retirement and it seemed that they were financially secure. However, Allen passed away unexpectedly and now Sue is only receiving one Social Security check instead of two for the household. She is now having trouble making ends meet.

Miscellaneous

Danger | **Example**

16. Unexpected Financial Responsibility Risk

Danger: In retirement, there are almost always unanticipated financial challenges and income needs that arise.

Example: Lisa and David were able to save for retirement successfully. They had paid off their house and put both of their children through college. However, one of their children is having trouble keeping a job and requires additional financial support.

17. Timing Risk

Danger: The timing of a person's retirement can have a major impact on their retirement. The problem is that there is no way to know how the market is going to perform year to year.

Example: Bill retired when the stock market was at an all-time high. His friend, Bruce, retires fifteen years later, right as the stock market is plummeting. He may be forced to work longer, but due to poor economic conditions he is unable to find a job.

18. Public Policy Risk

Danger: Government policies can change at any time and have a negative impact on a person's retirement security. This would also include increases in income and property tax rates.

Example: Becca and Rick were planning on maximizing their Social Security income using a claiming method called "File and Suspend." However, congress recently changed the Social Security rules and eliminated their ability to use that strategy. Now, they will have to survive on less Social Security income.

Identifying the Real Retirement Dangers

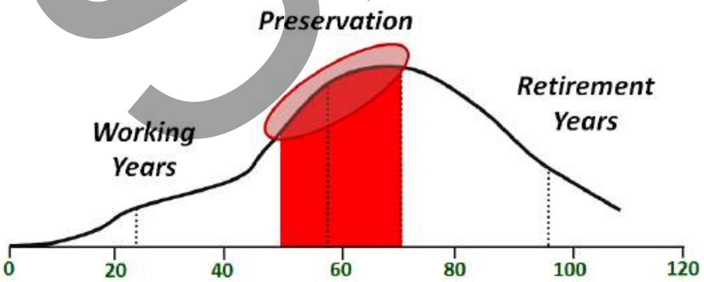
What is the ultimate goal when climbing a mountain?

Is it to reach the summit?

Or... is it to get back to camp safely?

Focusing on the wrong goal is dangerous in retirement as well. Many people only focus on the goal of accumulating assets before they retire. They don't consider the major challenge of converting assets into income until they are already in retirement.

How can they make sure that their money will last as long as they do? Without a plan, most retirees spend their nights worrying if they have enough saved to safely descend the mountain of life.



Planning for and addressing the 18 risks in your retirement plan can give you the confidence you need to live throughout all of life's stages with an attitude of abundance instead of scarcity.

In Retirement, Do You Want To SURVIVE Or THRIVE?

Retirement is a complex and ever-changing landscape. With so many aspects of your financial life changing as the shift is made from asset accumulation to income distribution, are you confident that you will enjoy a safe and secure retirement?

Here are some questions to ask yourself:

- Do you want your income in retirement to be guaranteed to last as long as you live?
- Would you prefer not to depend on the performance of the stock market for your lifetime income?
- Do you want your financial plan address each of the 18 risks?
- Do you have questions regarding when and how to claim your Social Security benefits?
- Do you want to feel confident you will achieve your financial goals during retirement?
- Would you like your financial plan to incorporate your legacy desires?
- Would you like a life time of income that you can't destroy, out live or even lose if you die too early?

And Finally,

- Do you want a financial plan designed specifically for you, so that you never have to worry about running out of income?

If you answered yes to any of the above questions, consider contacting our office to schedule a no cost discussion regarding your current retirement plan. Our proprietary software can enable us to assess your current plan and determine if adjustments can be made to help you address each of the 18 risks.

Our goal is to help you ... **"reFIRE"** with confidence.