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Some Retirement Risks To Consider

Over my almost 30 years in the financial services business I have counseled 100's of individuals and couples about the process of preparing for retirement. Over the years I have moved more from the traditional textbook – computer model – boilerplate approach to retirement planning, to a more realistic planning approach. Let me provide a quick example. There is an unlimited choice of web based retirement planning programs that are easily accessible. The challenge is that as one inputs data they are making a ton of assumptions about their future such as – rates of return – age at death – future inflation – spending patterns/needs – etc. With more experience – I quickly learned that the old saying is definitely true – “life is what happens while we are busy making other plans”. I learned that spending can be much higher in the early years of retirement then later in life when health concerns start to set in. An early death of a spouse can throw off all assumptions. Long term care needs – especially the onset of a disease such as Alzheimer's – will turn even the best laid plans upside down.

In the planning stages of retirement it is very rare to be able to keep pace with the savings that is needed to meet goals. Divorce, challenges with children, job issues, real estate ups and downs, can make it difficult to keep on track. My approach is now to work with clients to provide as much encouragement to save during their work years as well as to provide income options and an analysis of what their savings can realistically produce when designing their retirement spending plans. Often today retirees are making decisions to move to other locations that are more affordable – for example selling their homes in New Jersey and moving into Delaware to reduce property taxes which can add hundreds of dollars per month to their retirement budget.

There are a few risks that retirees face today in their retirement years that I try to bring into the conversation when I counsel clients. First and foremost is the risk of living too long – called Longevity Risk. Over the past 50 years' life expectancies have been rising, although I have recently read that the trend is slowing and in some studies have reversed slightly. Preparing for income needs well into the future is a major part of retirement planning. Making the decision about dipping into principal over the early years of retirement when spending can be higher must be considered. Some clients take the approach of wanting to spend their last dollar at their last minute



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on earth and some want to protect every dollar of their savings for the benefit of their heirs.

Healthcare expenses are such an unknown variable that it's near impossible to plan for. Why is it that some live a long life and die peacefully in their sleep while others – like my mother – end up spending their last years in a facility where the care expenses devastate an estate that they worked a lifetime to accumulate? Long term care insurance is a great product but my experience is that most folks simply do not want to commit to paying an insurance premium for the rest of their lives. In our industry there is a saying about long term care insurance – “often quoted – rarely purchased”. I am a big fan of long term care insurance. The best time to buy it – the “sweet spot” – is in the late 50's. Often folks wait too long and when they really want it – the cost is too high – or they cannot qualify for the coverage because of health issues.

There is a concept called “sequence of returns” – which illustrates the challenge of making money last a lifetime when the earnings of a portfolio are in negative territories early in the retirement years. For example – if a portfolio suffers early losses while withdrawals are occurring – the funds can get so depleted that the funds will not last over a lifetime. Average rates of return are not as important during the “spenddown years” – protecting principal is most critical.

Market risk is always a concern and even though the market is sizzling – the remembrance of the collapse of 2008 is still fresh in the minds of those that are in retirement. This memory is a big part of the popularity of annuities in today's world. Although retirees give up much of the upside opportunity when they purchase an annuity – the safety and security that they provide is often well worth it. A good approach is mixing in annuities with more growth and income oriented positions so that some funds are protected and set to provide income for life (annuity) and some are set to better inflation proof assets which will be utilized later in life when more income may be needed.

Inflation is a growing concern although if the governments assessment of inflation was true – the price of goods and services are growing very slowly. I know from my personal experience that total costs of maintaining one's standard of living have risen dramatically – from the gas pump – to the market – to meals and entertainment. It's impossible to predict these future expenses with any degree of certainty so the best plan of attack is to have



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assets positioned to outpace true inflation. My opinion - true inflation is near 5% - not the less than 2% that is being reported today.

In closing – my approach in planning for retirement is fairly straightforward. First – being debt free is a critical first step. Service of debt is a cash flow killer. If that means selling and downsizing – or working a little longer – or curbing spending – make it happen. Next is to make a realistic assessment of how much monthly income will be coming into the house from all sources – social security – pensions – income from savings and IRAs – etc. Then adjust the spending plan to match that income number. And lastly – monitor income and spending at least yearly so that if adjustments need to be made – they can be instituted as early as possible.