Often Overlooked Retirement Planning Questions

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When planning for retirement, often the focus seems to be almost entirely on "how much can I save?", but there are some other significant questions to consider.

How long will I live? U.S. life expectancy is increasing – advances in medicine and other factors are allowing us to live longer. This means you need to plan to accrue more asset to last through a potentially longer retirement period.

As an alternative to saving more, you may think you will simply work longer, however, health issues or loss of job combined with trouble finding new employment as a senior may prevent you from doing so. Make sure you plan for these potential realities.

How much do I want to be able to spend in retirement? It is very important to determine what you plan to spend annually in retirement. Project too high and your goal may seem unattainable, but too low and you may run out of money. Generally you should plan that you will spend more on travel, hobbies, and entertainment early in retirement when you have the time and better health to enjoy those activities.

How will inflation impact my retirement? Inflation can be defined as an overall upward price movement of goods and services in our economy as measured by the Consumer Price Index (CPI). To illustrate inflation's negative impact, say you are 52 now, plan to retire at 70, and anticipate needing $25,000 a year from your assets based on today's figures. In that 18 years until you reach age 70, the amount you need to withdraw to provide the spending power of $25,000 currently would be double that figure ($50,000 annually), assuming a 4% average inflation rate.

What will my tax bill be in retirement? You will have to pay taxes on the money you withdraw in retirement from your tax-deferred assets, such as from your 401(k) and IRA accounts. These are the ones that helped you reduce your tax bill when you were actively working, but since you didn't pay the taxes on that money then, you now have to do so.

On an account worth $500,000, you may pay more than $65,000 in taxes during retirement at a 15% tax bracket, but more than $130,000 if you are in the 33% tax bracket. This can be challenging, and planning early for this eventuality by using tools like Roth IRA investments as a part of your overall portfolio may help your retirement dollars last longer by lowering your tax bill in retirement.

How will I afford health care? Health care costs are increasing significantly – and outpacing inflation. The median health care cost for a 65 year old today is $4660, which is 6% more than the median costs just one year ago. At the current growth rate, according to projections, by 2036 the same senior can expect to be paying over $18,000 annually in health care costs (JP Morgan/ERBI/Select Quote). These costs will include Medicare Part B premiums (doctor and hospital), Medicare Part D (drug) coverage, as well as Medicare Part F (Medigap) and vision, dental and miscellaneous costs.

Keep in mind that with age generally comes greater potential you will develop chronic health issues and illnesses. This is likely to require a higher percentage of your income in retirement be devoted to paying for health care and prescription drugs. This increased usage of healthcare, coupled with the inflationary growth occurring in overall healthcare costs is a "double whammy" you will need to be prepared to handle. What you are spending now is likely not a good guide for what you may be spending in retirement. And don't forget inflation applies to healthcare costs as well.

Will I need Long Term Care? According to the U.S. Congressional Budget Office, on average, about one-third of people age 65 or older report functional limitations of one kind or another. Among people age 85 or older, about two-thirds report functional limitations. One study estimates that more than two-thirds of 65-year-olds will need assistance to deal with a loss in functioning at some point during their remaining years of life. So unless you are at an asset level so low that spending down your assets to qualify for Medicaid assistance make sense for you; then yes, you probably do need to consider some form of long term care insurance in your retirement planning.

What returns can I expect on my investments? Is your money sitting in cash or very low return investments, such as some bonds; where you may actually be losing money net of taxes and inflation? Are you one of the rare individuals who has saved enough that you don't need to invest your money for potential compounded growth over time? **Most people today will need to achieve long term growth on their assets to have a chance at building a nest egg capable of meeting their needs throughout their longer retirement periods.**

For most, this will be achieved through investments where they have a chance at that long term growth that has historically been best achieved through stock market investments*. Even with the potential opportunity for growth in the stock market, most investors will need to plan to save more prior to retirement and spend less while in retirement to be able to achieve their goals.

Does it matter how I withdraw my money in retirement? An emphatic "yes" to this one. You need a plan for using your assets in retirement, especially if you are one of the many who have not saved enough, so you need that continued potential for growth throughout retirement. I teach clients about my "retirement harvesting plan," a model that helps you strategically allocate and withdraw from your assets in retirement. This plan allows for the potential for continued growth on a portion of your retirement assets, sets aside reserves for immediate needs, and keeps you from having to pull from your stock market investments during down markets. This can potentially help to stretch your assets or to increase the amount you can draw annually to increase your chances of living comfortably and securely in your retirement.

No matter where you may be in terms of your age, income, and accumulated assets, we strongly recommend you work with a professional to help get your planning on track to maximize your assets. There are just too many factors to consider doing this on your own. If you already have a retirement plan in place, it may be time to seek a second opinion of that plan to see if there is anything else you should consider doing. Hear what we have to say with no obligation by calling us now at 770.931.1414 for a free retirement planning consultation or visit www.rogersgreen.com for info on the retirement planning classes I have been teaching since 1997.

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