

Plan Smart & Avoid Pitfalls in Retirement

Much is written about the classic financial mistakes that plague start-ups, family businesses, corporations, and charities. Some classic financial missteps have been known to create disadvantages to retirees, too. Calling them "missteps" may be a bit harsh, as not all of them represent errors in judgment. Either way, becoming aware of these potential pitfalls may help you to avoid falling into them in the future and to plan smart for your retirement days ahead.

Managing Social Security. Social Security benefits are structured to rise about 8% for every year you delay receiving them after your full retirement age (FRA). For many FRA is age 67, so this growth takes place between age 67 and 70. Contrast this by applying for your monthly benefits *before you reach your full retirement age* can also mean comparatively smaller monthly payments.¹

Managing medical costs. One report estimates that the average couple retiring at age 65 can expect to need \$315,000 to cover health care expenses during their retirement, even with additional coverage such as Medicare Part D, Medigap, and dental insurance. Consider and apply for *Extended Care Coverage*, better known as Long Term Care (LTC) medical coverage. This needs your attention before it's too late and while you are still in good health, is the time to apply for this valuable coverage. Having a strategy can help you be better prepared for medical costs and strengthen your retirement income outcome.² There are many types of coverage to consider, some known as "hybrid LTC", which provides a death benefit should you not ever need the LTC and pass away while the plan is in force.

Understanding longevity. Actuaries at the Social Security Administration project that a 65-year-old US male has a 34% chance, and a 65-year-old US female has a 45% chance to live to age 90. The prospect of a 20- or 30-year retirement is not only reasonable, but it should be expected.³

Inflation, the hidden erosion factor: Inflationary pressures on our dollar can put us in a squeeze. As we live longer, the compounding of such is the hidden, but very real threat to each dollar we save and eventually spend. Make sure you plan to invest to outpace longevity, inflation, and as you will see coming up, taxes.

Managing taxes. Some people enter retirement with investments in both taxable and tax-advantaged accounts. Which accounts should you draw money from first? To answer the question, a qualified financial professional would need to review your financial situation so they can better understand your goals and risk tolerance.

While planning for taxation in retirement, consider the advantages of a Roth IRA, Backdoor-Roth, IRA to Roth IRA Conversions or a Roth 401K. Each of these vehicles can be extremely valuable in retirement and as your retirement entitlement benefits, like Medicare and Social

Security are charged or taxed according to your “taxable income”. Roth income is the only truly, non-taxable income stream, and helps you avoid loss of income due to these factors.

Managing withdrawals. You may have heard of the "4% rule," a guideline stating that you should take out only about 4% of your retirement savings annually. Each person's situation is unique but having some guidelines can help you prepare. If you can stick to a 4% withdrawal rate as an example and earn conservatively on your invested portfolio of 5-6% annual return, you will possibly not outlive your savings. This will all depend on all factors you need to consider when planning.

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Managing other costs, like college. There are no "financial aid" programs for retirement. There are no "retirement loans." There are no lines or credit, since these usually rely on earned income as one qualification, and there are no scholarships to help! So, helping your family with college expenses, while awesome, need to carefully be considered. On the other hand, a financial professional can help you review your anticipated income and costs before you commit to a long-term strategy, and help you make a balanced decision between retirement and helping with the cost of college for your children or grandchildren.

1. SSSA.gov, 2023
2. Fidelity.com, 2023
3. LongevityIllustrator.org, 2023

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