THE Wealth REPORT

When it comes to retirement planning, all of us want to know we have enough money saved and how to make it last. We also want to feel confident that we can live our desired lifestyle in retirement.

HELP YOUR SAVINGS STAY ON TRACK THROUGHOUT RETIREMENT

Overview

When it comes to planning for the future, it's easy to fall into the trap of thinking we have all the bases covered. Take retirement planning, for example. You can plan for the lifestyle you want and the income you think you'll need. You can even stash away extra funds for unexpected expenses. But can you truly plan for every variable or event that may occur years from now?

Even the best-laid retirement plans may get derailed by future unknowns and threats. Three of the most common threats to your retirement plan are:

1. Underestimating income needs
2. Withdrawing more money than you should
3. Overexposure to market risk

If your retirement plan misfires in any of these areas, you could end up outliving your savings.

Piecing together an accurate retirement plan is a little like putting together a puzzle without having the finished picture as a reference. You just don't know if you've got it right until you get to the end.

Read on to discover ways to address these potential threats and help make sure you save enough money and can make it last while living the lifestyle you want in retirement.

Ways to Save (and Keep) Enough Money

Knowing how much to save is the big question for many pre-retirees. After all, none of us know how long we will live or what costs we will incur later in life. But we can look at the averages: A 65-year-old American man has a life expectancy of nearly 84, while a 65-year-old woman lives to be 86 on average.[1]

Based on those averages, people who retire in their early to mid-60s could expect to live two or even three decades in retirement. Planning for an additional 30 years of income after you've stopped earning a paycheck requires disciplined saving and knowledgeable investing.

Let's say an investor does it all "right." In the early stages of developing a retirement plan, he or she may invest 100% of funds in equities to help maximize growth. That might have been appropriate at the time, but as retirement inches closer, a more conservative approach is typically necessary. After all, people want to retire with the maximum savings possible, and they don't want to suffer investment losses near their retirement date.

As time goes on, most investors shift from wanting to grow their money to preserving it. If this is one of your goals, one of the first steps is to consider choosing an investment allocation strategy appropriate for your timeline. Work with an experienced financial professional to adjust allocations as you near retirement. Keeping your investments aligned with your goals and tolerance for risk can help increase the chances of having enough money in your later years.

Ways to Make Your Money Last

Even if they have successfully built wealth during their working years, retirees can still stumble if their withdrawal rate is off base. It can be important to adjust the investment mix to reflect a change from the accumulation phase to distribution. In other words, once you have built up a substantial nest egg, it needs to be paid out in a manner that will last throughout your retirement.

That could mean repositioning assets from growth-oriented to income-oriented vehicles. While retirement accounts such as employer-sponsored 401(k)s and IRAs can be excellent growth vehicles, they are also impacted by market fluctuation. Money remaining in these accounts during the withdrawal stage could still be lost as a result of poor market performance, which would likely deplete a nest egg faster than anticipated.

Other threats to a retirement income plan are health care and long-term care costs, both of which can be exorbitantly expensive. According to a Fidelity Retiree Health Care Cost Estimate, a 65-year-old couple retiring this year can expect to spend approximately $315,000 on health care alone in retirement — and that only accounts for expenses such as doctors' visits, insurance premiums and prescriptions.[2]

To address these unknown expenses, some investors reposition a portion of their assets to insurance products, like fixed annuities and life insurance. Policies are available with features that can help provide for long-term or critical care expenses, an inflation hedge and even growth opportunities without direct exposure to securities markets. These products also contain limitations and may be subject to qualifications you need to fully understand before making any purchasing decisions.

Ways to Live a Fulfilling Lifestyle

Retirement is a great time to live out our values. Throughout our careers and while raising a family, we may feel compelled to keep pace with the lifestyles our friends, neighbors and colleagues are living. The downside is we may buy a bigger house than necessary or take expensive vacations that don't bring the family closer together in the long run.

Retirement can be a time to right the ship. If you've always felt the house was too big, consider downsizing. If you want to travel, adjust your retirement income to accommodate the trips you want to take and activities you want to pursue. Also, keep in mind you may not need an expensive country club membership if you would be just as happy hitting the links at a public golf course. The point is to right-size your lifestyle to match your budget, which doesn't mean you necessarily have to give up everything. You may be able to continuing doing what you love, just pay less to do it.

Remember that your retirement lifestyle is typically defined by how you spend your days. Revel in the fact that your time is truly yours. You can travel, spend time with family, read great books, learn a foreign language, take a dance class … whatever you want. As you plan for retirement income, consider ways you might offset expensive hobbies with more fulfilling ones. You do not always have to do what you're expected to do anymore; you can do what you want.

Balance: You're the Professional

Ultimately, no one can plan for every threat or contingency they may face in retirement. However, if you're fortunate enough to get there, you've likely learned some powerful lessons along the way. Like how to be flexible when plans go awry. How to adapt when less money is coming into the household. Or how to keep your spirits up through a run of bad luck. An important part of pursuing retirement confidence is to balance your needs and wants against your income. It's a skill you've been practicing your entire life.

Final Thoughts

Thinking through each of these issues can be daunting, but it's an important part of making sure you have enough saved for retirement and you won't outlive your savings. Your best approach is to work with a financial professional who can help you think through potential threats to your retirement and then put a plan in place to help protect and preserve your savings. Knowing what you might expect early on can help keep surprises from derailing a retirement plan.

[1] John Waggoner. AARP. Dec. 4, 2023. "How Much Money Do You Need to Retire?" https://www.aarp.org/retirement/planning-for-retirement/info-2020/how-much-money-do-you-need-to-retire.html. Accessed Jan. 12, 2024.
[2] Fidelity. June 21, 2023. "How to plan for rising health care costs." https://www.fidelity.com/viewpoints/personal-finance/plan-for-rising-health-care-costs. Accessed Jan. 12, 2024.