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"Straight Talk About Retirement"

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For over 20 years, we've been counseling people about the challenges and rewards of life in retirement. And over that span, most of the issues remain the same. Nevertheless, they're worth covering here, because the American public remains ever-challenged to get things right for their 3-decade journey through their "Golden Years." The latest National Retirement Risk Index (Boston College) tells us that 52% of households are likely to fall short of having enough income during retirement, and a 2012 study by the Financial Industry Regulatory Authority revealed that over 50% of respondents expressed some level of dissatisfaction with their "current personal financial condition."

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There's an awful lot of research about what retirement means and how to prepare, and it's difficult to sift through. Much is contradictory and poorly reasoned, so let us mention a few things that –in our experience- you need to consider.

Longevity: According to the Society of Actuaries, a 65-year old male has a 20% chance of living to age 90; for a female it's 31%. A 65-year old couple has a 45% chance of at least one spouse making it. The *median* life expectancy for a 65 year old is 86.4. But if you plan just to make it to age 86, you're making a mistake. "Median" means that 50% of the people live past that age . . . so you've got to plan beyond that because that 90-year old could be *you.* The Society of Actuaries also reports that 4 of 10 people underestimate their life expectancy by more than 5 years. Don't be one of them.

Working in Retirement: According to a 2014 study by the Employee Benefits Research Institute (EBRI), 65% of pre-retirees expect to work for pay in retirement (81% of that group indicate that they'll *need* the income to make ends meet) . . . yet the same study reports that only 27% of retirees actually *have* worked for pay in retirement. Similar results were found in a Bank of America/Merrill Lynch study. The good intentions of workers do not always carry through, and if the success of a financial plan is predicated upon additional working income in retirement, many will be disappointed. Further evidence of the disconnect between expectation and reality comes from a recent Gallup study that found that the average worker expects to stop working at age 66, but that the average age workers really do stop is age 61.

Spending in Retirement: Many financial advisors use the rule of thumb that retirees need to have enough saved to replace 75% to 85% of their pre-retirement income; and that –after accounting for social security payments- you can "safely" (no guarantees) live on a 4% annual withdrawal from your nest egg. For example, if you were making $100,000 prior to retiring, maybe you'll need $80,000 annually after. If you receive $30,000 in social security benefits, that leaves $50,000 to cover from your investments. At a 4% withdrawal rate, you'd need a nest egg of $1.25 Million to cover that. These are nothing more than educated guesses, useful to start the conversation . . . but each case is different, which is why we urge an in-depth financial plan to reveal the best course.

We also know that people spend far more early in retirement than they do later on. They travel more and are more active socially. As they age, spending generally declines significantly through their 70s and 80s . . . by as much as 30% (JP Morgan). The important lessons about retirement spending are: if you think you can live on 50% of pre-retirement income, you're probably kidding yourself, and that you can't afford to just guess about this stuff. The biggest regret of retirees is consistently, "I didn't save enough".

Health: A 2012 study by Fidelity estimated that through retirement, the average healthcare costs for a couple are $220,000 (inflating 5% on average). This includes premiums, deductibles, prescription drugs, and other out of pocket costs. These costs account for 13% of spending for those 65+ (Bureau of Labor Statistics). When asked, pre-retirees underestimate these costs by an astounding 75%. Compound this by the fact that 72% of women and 55% of men over age 75 will need long term care for some illness (American Association of Long-Term Care Insurance, 2014), and that the average cost today of a private room in a nursing home is north of $100,000 (average nation-wide). You can readily see that health costs and coverage must be a top priority for pre-retiree planning. But they are not in most cases. Preparedness for health care issues –and these affect the entire family- are the biggest source of neglect in planning that we see.

Investing: Most retirees need sort of a "Goldilocks" portfolio that is neither too risky nor too conservative, that has the probability of growth while protecting against calamity (think 2008-2009). Rules of thumb like, "take your age and that's the percentage you need in fixed income" don't work well, nor is investing for retirement as simple as just picking a handful of great stocks. Managing to minimize damage during market downturns is just as important as how many 5-star investments you own. Think about the retiree with $2,000,000 who withdraws $80,000 annually to start retirement . . . and then the markets fall and his accounts are down -25% and -15% in consecutive years. Now, in year three, the accounts are hovering around $1.1 million, and $80,000 is not 4% of the portfolio anymore but closer to 8%, and is probably not sustainable. Investing during retirement is delicate and dynamic. Portfolios need to be monitored and modified from time to time. It's not easy.

The Good News: The Bank of America/Merrill Lynch study reported that 80% of retirees found more flexibility in their days, 53% reported having more fun than expected, and over 60% felt more connected to others. Generally, retirees report having a pretty good life. In a Wall Street Journal report (12/1/2014) only 1 in 5 retirees described themselves as depressed or sad, just 1 in 10 felt unneeded, and 3 in 10 said that life had turned out even better than expected.

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Retirees spend more time sleeping (nothing wrong with that!), watching TV, reading, gardening, and socializing (Bureau of Labor Statistics). Low-cost leisure activities are just as enjoyable and fulfilling as those that may put some strain on your budget. What study after study have shown is that most people truly enjoy being retired.

Retirement is a journey, a long one for most of us, and –as with any big trip- things can go wrong if you don't plan or think about how you want to spend your time. At least on this journey, we have a good handle on the potential dangers that lurk: not having enough saved, spending too much, a long term illness, etc. And we also know how to mitigate these risks.

So why aren't more people serious about planning for their future? We know that most retirees tell us they're happy, but why leave it to chance when you can stack the odds in your favor with a little preparation? When you're halfway down the road, sometimes it's too late to turn back. Best to get it right at the start.

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