Retirement

It's closer than ever. Are you ready?

THE 50+ RETIREMENT PLAN

Key issues, the biggest risks, and what you can do to build a better retirement plan in your 50's

Most of us know about all the things we should be doing for retirement – saving, some financial planning – but it can be hard to turn that knowledge into action. How much should you save? What concerns should you prioritize?

Unfortunately, while there are rules of thumb we can look to, there are no simple answers to these questions. The reality is that retirement planning is as unique as the individual doing it: how much to save, where to invest, and what issues to worry about most are dependent on the specifics of your life and finances.

This document is intended to help you start your own personal planning process. We'll cover some of the

key retirement risks that we try to help our clients navigate, as well as the basic outlines of several strategies that you can use to move your plans forward.

This isn't intended to be a comprehensive list of everything you can do to prepare for retirement, but rather a starting point for a better future. It's our sincere hope that it provides good information and food for thought as you plan the next stages of your journey towards a happy retirement.

With respect,

Your team at Creating Your Pension

FIRST THINGS FIRST

Retirement planning: maybe you've been thinking about it for decades, or maybe you're just getting serious about it now. Wherever you are, your 50s are a key decade. This is the time to capitalize on what you have and make the most of the time remaining before you transition into the golden years.

There are several critical planning issues that you really should address right now – that's what makes this decade so important. We'll cover these major areas in this guide and help you get started on your planning journey.

Just remember: every situation is a little different, and you may have unique risks that we haven't addressed here.

If you're looking for extra help or a uniquely tailored answer on how you can best prepare for retirement, please contact us for a free consultation.

RETIREMENT RISKS

The majority of us probably want the same things in retirement: a degree of financial security and flexibility, good health (and the ability to get medical help when you need it), and of course being able to do what you love with the people you love.

To varying degrees, all of these require a financial plan, and that means acknowledging the things that could happen which would prevent you from reaching those goals.

There are four key retirement risks that you should seriously consider in your 50s:

1. An unexpectedly early retirement
2. Healthcare costs – and health scares
3. An unexpectedly long retirement
4. The ability to maintain and enjoy your lifestyle

Why now? Well, once you're a few years away from retirement it might be too late to make serious progress on these issues, but if you start now you can help to minimize these risks.

Let's look at each of them in turn.

EARLY RETIREMENT

This isn't the kind of retirement that happens when you look at your asset base and think, "You know what – let's start this now!" This is the retirement that occurs due to a health crisis, job loss, or other unforeseen event. These retirement transitions are almost always involuntary, at least to some degree, and they can leave the new retiree confused, concerned, and scared.

The reality is that this happens more often than we care to admit. One study found that 48% of retirees retired early – and most were pushed by circumstances.

Does your retirement plan have the flexibility to provide for you in this situation?

HEALTHCARE COSTS AND SCARES

You've probably heard about healthcare costs rising in retirement, and you may even know a horror story or two. But the research is showing that whatever you've so far, the reality is probably a lot worse.

A 2017 study found that healthcare costs are rising 5.47% per year – or about 3 times the overall rate of inflation in the economy – and they're likely to continue on that path for the foreseeable future.

This is particularly painful for those who rely on Social Security to help cover their costs: Social Security benefits are only adjusted for total annual inflation.

There's more. Medicare, which many retirees rely on, is also getting more expensive. Part B premiums jumped 16% in 2016, while Part D, which covers prescription drugs, rose 8%. All this together means that retirees are spending more than ever on healthcare.

It also means that by the time you retire in the next decade or two, healthcare costs will be far and away more expensive than they are now, thanks to power of compounding.

Will you be able to keep up?

LIFESTYLE

For many retirees, the very long term is an important issue, but it's not quite as pressing as one simple question: will I be able to enjoy my retirement? Whether that means staying in your family home and going on long trips, downsizing and moving to the city, or something else altogether, most of us have an idea of the lifestyle we're hoping to achieve in our golden years.

Is your financial plan on track to deliver that lifestyle?

WHAT CAN YOU DO?

There's no easy answer to any of these questions, especially when you factor in your own individual financial situation. However, there steps you can take to improve your chances of retirement security.

DEBT PLANNING

First and foremost, take control of any debt you might have, particularly if you're carrying high-interest loans or credit card balances. The money that you spend on debt is money that you can't put towards retirement or investing. When you factor in interest payments, you'll find that it's also money lost.

To get started, make a list of your balances and interest rates. Then, review your expenses. What can you do to help pay down that debt faster? In some cases, all you need to do is re-direct some of your spending. In other cases, it might make sense to even pause on retirement savings.

The right course of action will depend on how much you owe, how much it's costing you, and how much flexibility you have in adjusting your spending. The right path will help you get on track to achieving your goals as quickly and cheaply as possible – without sacrificing your short-term financial or practical needs.

A FOCUS ON SAVINGS

You've heard it before, but we'll say it again: saving for retirement is a critical part of a secure retirement. The more you can do in your 50s to build an asset base, the more flexibility you'll have should the unexpected arise.

But how?

Start by maxing out any contributions to workplace retirement plans, especially if they come with an employer match. The matching contribution is basically free money: if you get $1 from your employer for every $1 that you contribute up to a certain amount, you're getting an immediate 100% return on those savings. Don't pass this up.

If you work for yourself or you don't have access to a workplace plan, there are other options. You might consider a SIMPLE or SEP IRA, or even a Traditional

IRA complemented by other savings. The right choice for you depends on your specific goals, financial needs, income, and asset base – but whatever you choose, do make it a priority.

Of course, that's the hard part: we all have expenses, and many people in their 50s also have kids and even parents to worry about. These situations can get really tough, and there's no easy way manage them.

Speaking to an advisor about your finances and goals could help you find new solutions to those longstanding problems – and so can a little creativity. It might be time to start "charging" your adult child rent for living at home, or scaling back in other ways. Maybe it's a good time to see if you can turn that hobby into a secondary line of income, or if there are other ways of reducing expenses that you haven't considered before.

Running the numbers can also help: speak to your advisor or find an online calculator that can give you projections of what you can expect to have at different savings levels.

Sometimes, seeing the numbers in black and white is just the motivation we need to make retirement a priority.

INVESTING FOR THE FUTURE

Your 50s are a time of greater flexibility on two key levels:

- Your asset allocation
- Your insurance coverage

As you head towards retirement, you'll likely reconsider your asset allocation to favor greater stability – after all, many of us heard the horror stories of retirees losing critical savings during the financial crisis. But that doesn't mean you should necessarily go the other way and invest only in the lowest- growth asset classes.

Your investment plan needs to account for your age, your total financial resources, your investment growth needs, your lifestyle expectations for retirement, and finally your ability to sleep at night. The last one is important: if you can't sleep, you're not doing it right (or you need some more time with an advisor who's ready to walk you through it).

Generally speaking, it's important to balance the benefits of long-term growth and the risk that you'll expose your portfolio to excessive amounts of volatility. This is a careful dance between risk and reward, and one that we advise striking with the help of a professional.

WHAT ABOUT YOUR MORTGAGE?

People often ask us if they should prioritize paying off their home mortgage before retirement. The reality is that it depends on your personal situation.

Consider the following factors:

- Are you looking to downsize or move after you retire? If so, it could make more sense to focus on saving.
- Are you very concerned about your cash-flow needs in retirement? No mortgage means one less expense to worry about, though it could come at the cost of having more liquid savings available.
- Are you saving enough for retirement? Make sure to consider your expected growth rate and how much you can expect to draw down from your savings each year.
- Have you explored any other options? Sometimes it makes sense to prioritize the mortgage, especially if you have everything else under control. In other cases refinancing is more attractive and useful, and some pre-retirees find that they get the most benefit from maximizing retirement savings contributions.

Long-term care insurance is another way to deal with long- term risks and financial security. Your 50s are generally a time of relatively good health, so you may be able to get better deals on long-term care insurance coverage.

Deferred annuities can help to mitigate the risk of outliving your savings. These annuities are purchased well ahead of time in exchange for lifetime income that begins after a certain age. The benefit of a deferred annuity is the knowledge that you “cannot” run out of savings in your lifetime.

In both cases, it’s important to carefully weigh the cost and benefit of each product. For example, if you have sufficient assets to cover even extreme medical expenses in retirement, long-term care insurance might be unnecessary.

Remember to do your diligence on the insurers you’re considering and to check their reviews, policy changes, and credit-worthiness.

Finally, policies can change, which can take retirees by surprise. Don’t forget o read the fine print so that you can have more certainty that you’ll get the coverage you want.

Insurance products can provide a sense of security for retirees, but it’s critical to remember that there are risks. The key risk is that dying prior to the start of payments means you’ll lose the cost of the annuity.

Further, annuity payments are backed by the insurance company that sells the product, which means assessing the credibility of a given insurance is very important. You may also be able to get better results with other investment or insurance products.

STRESS TEST

What happens if you lose your job at 63, or have a cancer scare at 65? These aren’t questions most of us like to think about, but it’s important to run some scenarios against your retirement plans to make sure they can withstand the “slings and arrows” of life.

Consider a few different possibilities:

- An expensive health problem in your mid- to late-60s
- A bout in long-term care in your 70s
- An early retirement brought on by job loss
- A stagnation or decline in home values in your area
- Unexpected financial needs by a family member or loved one

If these possible scenarios spooked you (financially), now is a good time to review your strategy. Think of it as a way to help you make better plans – sometimes, seeing the costs of various misfortunes can act as a serious motivator to prioritize.

MAKE THE MOST OF THE ASSETS YOU ALREADY HAVE

While we often think of retirement planning as an investment issue, you have many assets available to you right now that you can use to help make your retirement dreams a reality. Sometimes using them is easy, while other steps are harder to take. But if you're looking to sail into retirement with confidence, make sure you've accounted for all the tools at your disposal.

For example, as a retiree in your 50s you might have the benefit of:

- Your age: Use it to get better deals on insurance coverage or to ramp up your income-generating potential or activities .
- Your income: Redeploy your earnings for more retirement savings or to pay off debt
- Your home: Spruce it up for a possible sale later on or hunker down for the long term with necessary improvements or maintenance.
- Your investment accounts: Review your portfolio and strive to balance long-term growth needs with prudent risk management.

Finally, remember that you have the energy and the will to prioritize your retirement plan. Just by downloading and reading this guide, you've taken an important step towards managing your retirement plans and setting yourself down a more secure path towards the future.

RETIREMENT PLANNING CAN BE COMPLICATED

That's why it might make sense to speak to a professional who operates under a fiduciary standard. A fiduciary is obligated to put your interests first, so you know that the advice you receive is tailored just for you.

DISCLOSURES & FURTHER READING

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http://www.hvsfinancial.com/2017-retirement-health-care-costs-data-report/
http://www.benefitspro.com/2017/06/14/health-care-costs-in-retirement-projected-to-soar

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