Retirement Planning: What if's

People are living longer, so it is important to plan ahead for a long retirement. According to the latest data, there is a 45% chance one or both partners will live to the age of 90, and an 18% chance one will live to 95. 401kcalculator.org

If this is the case with most people, then you may need to be planning for the what if's in life. We have laid out in this article a few of those what if's to be looking for.

What if you live to 100 - Making your money last longer

Be flexible with your spending – Use a flexible withdrawal strategy based upon your lifestyle and investments. For example, if your expenses are relatively low one year (no vacations planned and / or medical expenses are limited) cut back on your withdrawal to leave more money to potentially earn returns. The same can be said on years that the market isn't performing well, trim some unnecessary expenses to leave more in your account for more potential gains when the market rebounds.

Wait as long as you can for Social Security – Social Security should not be your main source of retirement income. The higher your social security checks are the less you will withdrawal from your retirement savings. You can start collecting Social Security as early as age 62 or as late as 70. The longer you wait the better your checks could be and it can make a big difference. For example, if you were born after 1960 your full retirement age is 67, if you expect $1000 per month at full retirement age, then if you receive benefits at 62 it drops to $700, or if you wait until 70 it would increase to $1240.

Buy some "retirement insurance" – A deferred income annuity is an agreement to pay a company a certain amount now in exchange for the promise of a set amount of income at a later date. There are several options; a "period-certain" deferred income annuity guarantees to make payments for a set amount of time, it can protect you financially in the event you live longer. If you want to eliminate the market's performance from the equation and set up an income in your retirement, a deferred-income annuity may be worth a look.

What if you want to work part-time in retirement?

When you earn some income but haven't reached Social Security's full retirement age your payouts will typically be smaller during the period you are working. For example, if you start receiving your payout early but your still working and earning more than $14, 160 (2010 annual limit) your benefit is reduced by $1 for every $2 above the limit. Social Security can make an

adjustment when you reach full retirement age to reflect the additional income you earned. The last year before reaching your full retirement age, the earnings limit rises to $36, 120 and your benefits are reduced to $1 for every $3 above the limit. The month you reach full retirement age your benefits may be affected by any earnings limit.

What if you want to pay for college?

Your child is headed to college soon and you are starting to plan your post-career life, with limited funds for savings, which do you prioritize, college or retirement? The price tags attached to both are steep. The average American will need upwards of $1 million to retire, https://www.chase.com/news/111614-saving-for-retirement depending on your desired retirement lifestyle. Preparing for college isn't much easier for working families. A Sallie May survey found half of all households with children under age 18 did not save for college in 2013. The average annual college bill today is $44,750 for private, $22,826 for in state, and as much as $60,000 for elite private institutions. https://www.chase.com/news/111614-saving-for-retirement . You might want to put retirement first, you can always borrow for college but there are no government loans for retirement. By putting funds away now for retirement you could benefit from the extra time to grow your assets in the long term. A second reason is tax breaks for retirement may be more generous than for college savings. For 2014 most workers can contribute up to $17,500 in tax deductible 401K or a similar plan plus many enjoy employer match. There Is no federal tax deduction for 529 plans. Also, when the school determines the amount a family can contribute to the education costs, many schools do not count the parents' retirement savings. The most overlooked reason to save for retirement is you can reduce the burden on your children later.

What if there is an illness, disability, incapacity, or death of a spouse? Planning for the Wild Card

When you do your retirement planning do you factor in health care costs and long-term care? A lot of people are scared to think about these. Have you thought who would take care of your finances if you are unable to? If you are incapacitated and do not have a Durable Power of Attorney, Healthcare Power of Attorney and/or a Revocable Trust your family will need to Petition for Guardianship and the court appoints your guardian. You should also have alternatives listed on all fiduciary posts, trustees, agents, proxies, and personal representatives two is good and three are better. You should review these documents yearly in case of changes. Think about the possibility of needing a nursing home, you need to plan for long-term care, purchasing insurance may be a smart move. Different annuities come with their own features. You should discuss these with your financial advisor.

Voluntary Benefit Plans - Aflac did a survey that most American employees (88 percent) agree they consider voluntary insurance benefits as a part of a comprehensive program. They have

plans such as accident, critical illness, and hospital confinement. Employees view voluntary benefits as a way to fill in coverage gaps, 63% see a need for the benefits. http://www.aflac.com/aboutaflac/pressroom/pressreleasestory.aspx?rid=683 Matthew Owenby, vice president of Human Resources of Aflac said "Health care reform has turned workers' attention to their personal health care situations. They are also looking closely at their insurance coverage to identify gaps that might leave them vulnerable to rising medical expenses." A key driver that can strain a person's budget is unexpected out-of-pocket costs that occur even with health insurance. The Aflac study notes many workers are unprepared to cope with a financial crisis if faced with a health emergency. The study also reveals health care costs could have a long-lasting effect on creditworthiness. Medical costs are affecting their credit scores, keeping them from paying other bills and hindering their efforts to save for a rainy day or retirement.

What if you haven't saved enough for retirement?

A surprising number of Americans are getting to the finish line and realizing they haven't saved enough or more surprising they have saved zero. One in four have saved nothing. Nearly half of the people close to retirement right now (56 to 62) could run out of money if they are retired for 20 years. http://www.cnbc.com/id/41716789# For most it becomes a vicious cycle of spending, procrastination, and as the finish line draws near denial. When planning for retirement you don't know how long you are going to live so you can plan for 25 to 30 years. Get rid of debt, many who have not saved enough are probably carrying debt, if you haven't saved enough you have probably spent too much. Cut your expenses with small changes such as eat out less, don't support your child in college as much as you had planned, buy a little less for the grandchildren, sell your home for a smaller house or condo. It's not easy to slash spending but you don't want to run out of money in retirement. For empty nesters you could rent out a room in your house. Plan to work longer than you originally thought to save more and you may receive more from social security. Work twice as hard if you feel you are running short of funds consider a second job and dump all the extra income into your retirement savings. The best thing to do is get a plan now and don't assume you are going to work forever, plan for the unexpected medical bills or taxes on your retirement withdrawals and never assume everything will work out.

Most importantly get with your financial planner and play out the what if's game in your life with them to narrow down the areas you need help with and do it sooner than later so you can adjust everything before it's too late to do anything about it.

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