The five risks of retirement

Retirement income planning essentially means turning assets into income that lasts as long as you do, while protecting that money against risks. These risks are sometimes called the five risks of retirement. Understanding and managing these risks may help you plan a comfortable retirement. Whether you are near to retirement, or many years away, this information can help you minimize the impact of these risks on your future retirement assets.

1. **Longevity** (or outliving your assets) is probably the one single greatest retirement risk. Thanks to medical advances and a healthier lifestyle, you may have a longer retirement than you think. You may even spend as many years in retirement as you did working. That's why it's important to create a plan to make sure your assets last as long as you live.

2. **Overspending** is our next retirement risk. You will need to consider the rate at which you will be withdrawing and spending your money. During your retirement, or what we call the distribution phase, you are likely going to be withdrawing income from the assets you are accumulating now. The rate at which you withdraw money from your retirement savings will have a profound effect on whether you'll outlive your money.

3. **Inflation** erodes savings and over time and can eat away at your purchasing power. Just like we can't predict how long we will live, it's also impossible to predict how much things will cost in the future. Look at the price increase of a new car, a box of breakfast cereal, or college tuition. You'll need to have investments which will outpace inflation or else you will erode the value of your assets. This point is especially crucial in today's low-interest rate environment.

4. **Market** timing is retirement risk number four. Market performance has a more dramatic effect when you're ready to retire than it did while you were accumulating assets. Retiring in a bear market can have a major impact on your assets and income sustainability.

   The years just before and after retirement is when a retiree's accumulated assets are most sensitive to losses from poor market returns. This is when you typically have the most money to lose. Negative returns during this period could cause a significant reduction in your retirement savings. While we cannot control the timing of a bear market, the length of your retirement years or the rate of inflation we can help mitigate these risks with a proper product allocation strategy.

5. **Health care** is likely to be one of your largest and most unpredictable retirement expenses. It's difficult to determine what conditions you may have or how much care you may need and when. Unfortunately, today's workers must understand that the cost of health care is expected to continue rising significantly in future years.

   Medicare, the federal health insurance program begins at age 65. There are two parts to this program - the government provides one, and private insurance companies provides the other. You will want to make sure you understand each of these programs as you near retirement.

How can you best manage the five retirement risks? Start with a plan and ask for help if you need it.
