10 RETIREMENT RISKS MOST PEOPLE DON'T CONSIDER

As the number of people turning 65 peaks in 2024, more Boomers than ever are ready to talk with financial professionals about the best way to create a retirement income strategy. Be sure in your conversations with them to highlight some retirement risks they may not have anticipated.

Planning for retirement used to be relatively straightforward. Workers relied on pensions and beginning in 1940, "old age insurance" in the form of Social Security was expected to generate income when they retired at 65.

"Things are much more complex in 2022 since most Americans don't have access to an employer-sponsored pension, and Social Security benefits might be reduced in the future unless the trust fund is made solvent before estimated depletion in a little over 10 years," says Jason Fichtner, who leads the Retirement Income Institute at the Alliance for Lifetime Income.

"Today, individuals have a more robust responsibility for their own financial success. They need to address some expected hurdles along the way such as market risk, outliving savings, and the erosion of purchasing power due to inflation."

Let's take it one step further and look at some of the financial challenges that most people haven't thought about when planning for retirement.

1) Not knowing what you really want in retirement

Most clients find the idea of retiring very appealing. Their time becomes their own and they get to spend it as they choose. Perhaps they will develop several "serious" hobbies, or volunteer or spend time with family. Sadly, without planning for time on their

© Alliance for Lifetime Income

hands, retirees may face feelings of isolation or feel adrift after a lifetime of structure. The old saying is true—failing to plan is planning to fail. When it comes to their golden years, individuals need to be proactive, and they can start by putting their thoughts down on paper as to what a typical day or week might look like. What will they do? Where will they be? What relationships will they have?

Joe Coughlin, Ph.D., director of the Massachusetts Institute of Technology Age Lab, created a helpful checklist that can get your clients started:

- Prepare for how and where you want to live
- Identify financial products and services that will provide the solutions you need
- Make tech your friend—how can it keep you connected and enrich your life?
- Build a social portfolio:
  - Have an ample number of friends that provide social capital to address life's many dimensions—namely being connected, having fun and managing life's tough times.
  - Actively seek activities and places in order to make new friends.
  - Proactively call an old friend.

As a Financial Professional, providing resources beyond just investing can give you a leg up in a crowded market where "value propositions" all seem to sound the same.

2) Unplanned spending shocks

This "unplanned for" category can be quite costly for our clients, especially unexpected health care costs which may include the need for long-term care. Add to the list other unforeseen expenses such as:

- Major home repairs e.g., roof, heating/cooling, and septic/plumbing
- A family member who needs help
- A divorce
- Cost of certain medications/prescriptions

3) Overspending

We've all heard of the client who, at retirement, plans to pull out 10% per year. Unrealistic and unsustainable plans for spending can put investors in a tough position, especially if one starts drawing down assets during a tough market [see sequence of return risk]. Discussing smart and responsible planning can help put clients on the right track and help manage expectations over the course of your relationship.

4) Not spending enough and compromising retirement satisfaction

The opposite of overspending, this risk suggests that clients might not spend enough of their money when they retire. As a result, they may be leaving too much money for the estate and sacrificing a satisfying retirement. For some, being ultra conservative might be baked into their financial DNA. Perhaps their upbringing or parental influence led them down this path? For others, there could be an interesting dynamic at play in the transition from accumulation to decumulation. Individuals view their money as savings rather than a source of income and hence, don't want to spend it. Some clients could benefit from a discussion that gives them permission to spend.

5) Carrying too much debt into retirement

Clients could be well served walking into retirement debt free. Wouldn't it be comforting to start their next chapter without a mortgage, all major debts eliminated and ample savings to enjoy? Some discussion and pre-planning around cash flow can help—especially during their working years. Introduce software or credit counseling in those instances where you determine there might be an issue. The concept of downsizing, while difficult for some, could be the perfect solution to put clients on solid footing as they head into retirement.

© Alliance for Lifetime Income

6) Declining cognitive abilities

One benefit of healthy longevity is enjoying the full life, including more time spent with family and friends. The flip side is the possibility of chronic illness, especially cognitive decline, which can leave older Americans vulnerable to making poor financial decisions and being targeted by scammers. Studies exploring the connection between aging and cognitive impairment find that personal finance errors and poor decision-making are among the first skills to decline. Keep an eye out for the emergence of early signs like:

- Difficulty reconciling checking and savings accounts
- Missing bill payments
- Poor credit scores
- Credit card mismanagement

7) Sequence of return risk

While "market risk" is often cited in financial literature, sequence of return risk may not get the press it deserves. Sequence of return risk highlights the impact of timing on portfolio withdrawals and how long someone's money can last in retirement. If a new retiree begins drawing down assets in tough markets, their portfolio "longevity" will be impaired even if they experience above-average performance in later years. The risk is significant as retirees won't have the time to make up for losses compounded by withdrawals during a market downturn. Case in point: remember those clients who retired in 2008 and started drawing down assets only to see the market collapse by nearly 40%? Timing is everything.

8) Loss of spouse/partner

While this may be a sensitive topic, it's an important one to address, especially since the timing is out of our control. Running through various scenarios can help frame the risk for investors. If one spouse passes away, how will current bills get paid? What would the financial picture look like in 5, 10 or 20 years?

9) Unique risks women face

Although women tend to have longer lifespans than men, the downside is that they may not be as prepared as they should be for retirement. A recent Government Accountability Office (GAO) report found that older women perceive their retirement security as being influenced by an unpredictable future. Women in 14 focus groups said they felt "uncertainty" or "fear" concerning meeting future expenses.

GAO study participants also reported a societal expectation that men were to handle finances during marriage. As a result, women had gaps in being prepared for the financial transition from a two-person to a one-person household. It would be wise to keep this dynamic front and center when meeting with clients of any age.

10) Public policy risk

Changes to government policies could provide an unwelcome shock to our financial security in retirement. What if there are changes to federal programs like Social Security or Medicare? What if income taxes are raised? Say the Federal Reserve raises interest rates and clients have an adjustable mortgage? The bottom line is that government policy is not set in stone and carries potential risks. A contingency plan may be helpful.

Your advice is invaluable

By 2024 the number of people turning 65 will peak at almost 12,000 daily. As Boomers reach the traditional retirement age, their path has been anything but traditional. Now, as their financial focus pivots to decumulation and income strategies, the timing is right for your expertise.

The Alliance for Lifetime Income (ALI) is here to help by providing thought leadership, practice management and tools to help you better connect with pre-retirees and retired clients. Check out the Financial Professional Resource Center on ALI's website for articles, presentations and interactive tools, including:

© Alliance for Lifetime Income

- 7 Keys to Helping Widows Plan for a Secure Retirement (pdf)—read this article for insights *(share the available client version)*
- Women's Financial Wellness (pdf)—scan this white paper for more insights on women and money
- 3 Keys to Income Planning and Answering, "What's Next?" (pdf)—share this with your client for education on personal finance, retirement and how to make their money last
- The New Client Conversation: Financial Security and the Keys to Effective Decision-Making (zip) —restructure client conversations for the most effective dialog. *(includes Handout Notes and Educational Commentary Guide)*
- Retirement Income Security Evaluation (RISE) Score®—use this calculator to see if client income needs are on track *(client version available)*
- Investing Personality Quiz (for clients)—learn your client's personality type and discover how to best approach the conversation with them
- Persona Resource Center—review client personality profiles that will help you conduct deeper conversations about what really matters to your clients and prospects

Financial Professional Resource Center (resources.protectedincome.org)

FOR FINANCIAL PROFESSIONAL USE ONLY. NOT INTENDED FOR PUBLIC DISTRIBUTION.

© Alliance for Lifetime Income