The Next Chapter of Your Life: Planning for Retirement

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You have a unique vision for your retirement. Whatever that vision is, proactive planning is the first step toward bringing it to life.

But one in three adults feel that their retirement is “too far away to think about.” The truth is, the sooner you start planning for your retirement, the better.

Envisioning Your Retirement Lifestyle

Rather than planning your life around your money, plan your money around your life. The first step in planning for retirement is defining what retirement means to you and answering some important questions. When do you plan to retire? How will you spend your time in retirement? Can you afford long-term care if you need it? Will you need to care for your parents or other loved ones? Are there charities you want to support?

Articulating the retirement you envision helps you set concrete goals and determine how much income you will need in retirement to achieve those goals.

Understanding the Risks to Your Retirement

As you map out your road to retirement, it is important to consider the following factors which could impact your ability to afford your retirement.

Longevity. With advances in medicine and an increased emphasis on wellness, people are living longer, healthier lives. As a result, many people underestimate their lifespan and risk outliving their assets. When building your retirement income, allow for the possibility of living longer than you expect.

Market Risk. This involves not just the possibility that the market will move against you, but that it will move against you immediately before or after you retire and begin withdrawing assets to meet expenses. However, keep in mind that, over the long-term, stocks have outperformed other asset classes and should likely still have a place in your investment strategy.

Inflation. If your assets do not grow as fast as the inflation rate, you could lose your purchasing power. Consider allocating a portion of your retirement portfolio to investments with the potential to outpace inflation.

Asset Allocation. This strategy combines various asset classes—such as stocks, bonds and cash equivalents—into your portfolio to meet your unique risk preferences and return objectives. As you move toward retirement, the focus of your asset allocation strategy will generally become more conservative, shifting from equities and growth to fixed income and cash equivalents that provide income and capital preservation.

Rate of Withdrawal. Withdrawing too much from your retirement nest egg early on can increase your chances of outliving your assets. Generally, your withdrawal rate should reflect your asset allocation, life expectancy, time of retirement, portfolio value, and tax impact. It may also have to take into account current or future required minimum distributions (RMDs) from your retirement account.

Health Care Costs. For many people approaching retirement, potential future health care costs are a source of anxiety, especially as medical costs outpace inflation. Historically the cost of healthcare has outpaced inflation, making it one of the large items in most retirees' budgets. In addition, fewer individuals are covered by employer-sponsored health care plans.

An experienced Financial Advisor can help you define your goals, prepare for your vision of retirement, and make changes as needed along the way. Look for an advisor who will support you every step of the way, from determining your income needs and allocating your investment portfolio to monitoring your plan and adjusting your strategy as your life evolves or priorities change. It's your retirement – don't settle for anything less.

Footnotes

https://www.aarp.org/content/dam/aarp/research/surveys_statistics/econ/2022/planning-successful-retirement.doi.10.26419-2Fres.00547.001.pdf

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