Financial Risks During Retirement

Strategy Compilation for a Successful Retirement Income Plan

Risk	Definition	Issue
1. Longevity Risk	Living longer than expected and consequently running out of assets to convert to income. The planning horizon for retirement is indefinite and unknowable, so a person who underestimates the required length of time will deplete his/her resources too quickly and lack the necessary resources to fund retirement income after a certain age.	Overestimating life expectancy in the retirement income plan will compel you to parcel out resources in an inefficient and oftentimes standard-of-living altering manner.
2. Portfolio Failure Risk (also called Excess Withdrawal Risk)	Depletion of retirement assets throughout retirement may lead to a shortfall of needed resources in the later stages of retirement. Choosing to draw down assets too quickly will cause the premature exhaustion of needs resources.	Choosing a withdrawal rate that is too low, however, will lower your standard of living unnecessarily. If you are not solely seeking safety; and are looking for permissible withdrawals that are both safe and that maximize their standard of living.
3. Investment Risk	Poor investment choices and black swan market events can lead to capital loss or less-than-planned for investment returns. Clients also may suffer from other related risks including market risk, which is the risk from events that cause all security prices to fall; or asset allocation risk, which is the risk of not adequately diversifying investments. Any reduction in the client's portfolio can lead to inadequate resources to fund retirement income.	Too conservative an investment approach can make a secure retirement impossible. Too aggressive an investment approach can also undermine retirement security.
4. Sequence of Return Risk	The variations of the sequences of actual events beginning with different time periods may adversely impact the your ability to count on your asset pool to provide the needed amount of income. If you retire right before or after your investments fall sharply due to a black swan market event, then the pool of resources may prove to be insufficient for retirement. In other words, you won't be able to sufficiently recover from the unfortunate timing. Consequently planners might suggest that you continue employment or go back to work after a down market.	This solution may not be tenable since continued work or "unretirement" may be out of the your control. Part time work may be available in a different area.

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10. Loss-of-Spouse Risk	In addition to the emotional and psychological consequences of losing a spouse and consequently having to live alone, there are financial and planning hardships that may arise when one spouse predeceases another.	Resources spent to protect the second spouse to die could be used to help both spouses while they are alive. In addition, you can never be certain how best to utilize the "protection resources" because you cannot be certain which spouse will die first.
11. Forced Retirement Risk	Stopping work prematurely based on health concerns, company downsizing, caregiving responsibilities, job satisfaction erosion, or other reasons prior to the planned-upon retirement date. The person who needs to retire earlier than anticipated will often have inadequate retirement resources especially if that person cannot reenter the workforce (sometimes called reemployment risk).	Optimally people would choose their retirement date based in part on having saved enough resources to sustain them throughout the period ahead. However, much like the squirrel that got caught short from storing enough acorns by an early winter, most must find a way to ration inadequate resources.
12. Public Policy Change Risk	An unanticipated transition in government programs that were embedded in the planning process including, but not limited to, significant tax increases, elimination of relied-upon tax benefits, and /or minimization or elimination of government programs such as Medicare, Medicaid, Social Security, and others. Any change from the expected events on which planning relied can undercut your personal retirement stability.	We cannot plan for all the contingencies. But certain changes like higher taxes or means testing can be anticipated. The problem is devoting resources to these contingencies may undercut the retirement standard of living.
13. Unexpected Financial Responsibility Risk	Acquiring additional unanticipated expenses including but not limited to the need to support children and/or grandchildren financially may derail a client's retirement income plan.	The opportunity exists here to avoid this problem by turning away from this responsibility. Since most parents probably won't accept turning children and grandchildren away, it may be a question of reserving resources to deal with this contingency. Once again, the opportunity cost issue arises. Resources used for this contingency cannot be used for other purposes.
14. Legacy Risk	The inability to meet the philanthropic and bequest goals thatare set. Retirement planning does not operate in a vacuum. Estate goals can be compromised if you do not properly approach retirement income planning.	People may need to balance between their standard of living today and their legacy. Too much legacy may lead to too much sacrifice during the retirement period and vice versa.
15. Elder Fraud Risk	When a caregiver or family member takes advantage of the relationship and makes financial decisions not in the best interest of the client. (stealing, borrowing, transferring ownership, denying medical services, grant POA, add to trust or wills, add to bank account, etc.)	You may need to have additional family members oversee all relationships including internal family ones. Often this is a issue of opportunity so oversight is the easiest solution.

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5. Reinvestment Risk	There is a chance that as higher-yielding fixed income investments mature, the you may need to reinvest that principal end possibly interest payments into a lower-yield fixed income investment. If you are relying on returns from investments, then any drop in expected yield may have an adverse impact on his/her standard of living.	A portfolio without some fixed-income investments may not allow you to properly convert assets into retirement income and it may not be properly balance.
6. Liquidity Risk	The inability to have assets available to support cash flow needs. Cash flow planning is an essential part of proper retirement income planning. This not only means planning for budgeted expenses but also means being prepared to have the resources needed to pay for and combat unanticipated or emergency needs. A person who ties up too much money will lack the ability to account for the dynamic nature of retirement.	Failing to tie up assets in products that serve other purposes may undermine many viable strategies and enhance other risks.
7. Inflation Risk (also called Purchasing Power Risk)	Increases in the price of goods and services will impede the ability to maintain the desired standard of living. Compounding inflation works against a each of us in a manner similar to the way compounding interest works for a us. For example, three percent annual inflation for a someone who retires at age 62 will mean that costs will nearly double for the you by the time he/she turns 86.	Underestimating inflation in the retirement income plan will cause a decline in the your spending power. However, overestimating inflation in the retirement income plan (and consequently spending less) will lower your standard of living throughout retirement.
8. Long-Term Care Risk	Dementia or other mental or physical limitations may restrict a person from performing the activities of daily living and require an outlay of significant resources for custodial and/or medical care. The need to provide health and custodial care in retirement is unknowable and potentially economically devastating. Studies by the Employee Benefit Research Institute (EBRI) have tagged long-term care risk as being the most substantial factor in the lack of financial preparedness for retirement. People who do not prepare for, or who suffer from, this risk can expect to spend significantly more during retirement than those who do not suffer from, or are prepared for, long-term care issues.	Using too many assets to account for this contingency may undermine the your standard of living.
9. Health Care Expense Risk	Costs exceeding Medicare coverage based on an increased need for care and/or rising health care prices may impede the ability to maintain the desired standard of living. The need for resources for health care is unknowable and potentially economically devastating. Underinsured people often times will spend significantly more during retirement than those with proper insurance protection.	Determining the amount of coverage is crucial. Too little coverage exposes you to disaster. Too much coverage uses resources that could be better used to mitigate other risks or enhance the your standard of living.