8 potential risks that might affect your secure retirement-What you should know!

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As a Federal Employee, your retirement planning should not be mysterious, uncertain or provoke anxiety. A candid assessment of your potential retirement risks should expose where and how you might be vulnerable and reveal whether your retirement plan is sound and will be successful. Each hidden risk must be carefully analyzed and weighed, as possible dangers to your secure retirement strategy. Whether you are retired, soon to be retired or still working full time and not planning to retire for many years, having a disciplined and sensible retirement blueprint will help ensure that the inevitable bumps in the road do not derail your long term security.

Longevity Risk

Longevity risk refers to the possibility you could outlive your money…by many years. Remember that an average life expectancy is just that – an average. Many people in their 60’s or 70’s still have one or both parents living, which can be an indicator of their own longevity potential. Living past 90 or even 100 is more common than ever. What plans do you have in place to help ensure you don’t outlive your income?

If you do not have a plan or are unsure, write down a check mark.

Market Risk

Market risk can also be called volatility risk. Very few people look for investment opportunities that will lose most of its value. Instead, risk can arise from investing in something that is currently near peak value, only to drop substantially later on. That said, most people still require a modicum of growth, over time in their liquid assets, simply to have a larger pool to draw upon and to keep ahead of inevitable inflation. The important issue here is that large market declines during the early years of your retirement can and will have a detrimental impact on your ability to withdraw income in later years. What are you doing to help mitigate or eliminate market risk with some of your retirement assets? What percent of your retirement assets are insured against losing money?

If you do not have a well thought out plan, or are unsure, write down a check mark.

Health Care Risk

As people live longer, there is likely an increased need for medical care on a more frequent basis. Unexpected accidents and injuries often occur as we age. Medicare coverage limitations ensure that retirees now shoulder more of these unknown expenses than ever. According to the Bureau of Labor Statistics medical costs have increased at double the rate than inflation. How have you planned for this eventuality?

If you do not know how you will meet this important need, write down a check mark.

Tax and Inflation Risk

T & I risk falls into the stealth risk category. We know it’s out there, but we may not be conscious of it on a daily basis. The combined impact can severely reduce your purchasing power and over time, leave you with significantly less spend-able dollars.

Many investors have not accurately considered whether taxes will be the same or higher during their long retirement. While some believe they will be in a much lower tax bracket, due to significantly less income, that outcome may not actually be the least bit comforting. A 3% inflation rate causes prices to essentially double in twenty four years, and at 4%, it only takes eighteen years to double costs—quite sobering. What steps have you taken to reduce this risk?

If you do not have a well thought out plan, write down a check mark.

Long-Term Care Risk

Long term care expenses, not covered by Medicare, can wreak havoc on your retirement plan. Though many people prefer to self-insure, the costs associated with LTC, not covered by insurance, can decimate a sound and carefully planned retirement strategy. It the situation arose, who is it that would care for you, that is ready, willing and able to do so—for free, if you do not have LTC coverage? Have you analyzed the cost of LTC coverage against what it might cost to pay out of pocket?

If you do not have a plan or are unsure, write down a check mark.

Withdrawal Risk

There is much debate as to the wisdom of adhering to a fixed withdrawal rate from your pool of assets. Conventional thinking previously pegged that figure at approximately 4%. More recently, it has been suggested this figure may be untenable if that asset pool suffers even modest valuation declines in the early years of retirement and/or suffers additional declines in later years. The resulting valuation may not support distribution levels once thought inviolable. Consequently, retirees may find themselves with not only a smaller principal balance, but in an ever spiraling need to reach for higher yields, potentially putting some of their remaining assets at even greater risk. Reducing the distribution rate means retirees might now have to manage to live on less income. When was the last time you stress-tested your retirement income plan?

If you've never stress tested or risk analyzed your retirement assets, write down a check mark.

Maturity and Reinvestment Risk

There exists a real possibility that when higher interest rate bonds or other fixed income investments mature, options to secure the same or higher yield will not be available. Bonds may be called earlier than the stated maturity date and similar income vehicles mature with regularity. Replacement yields can often be much lower forcing investors to cope with reduced investment income or potentially accepting a lower quality rated vehicle, which is certainly not the favored approach in or near retirement. What's your plan to maintain consistent retirement income?

If you do not have a plan or are unsure, write down a check mark.

Unexpected and Unknown Risk

It is quite possible that grown children may move back home when job or personal issues arise. Or, a family member may require substantial financial assistance to cover student loans, legal bills or a down payment on a home. Have you had a candid discussion with your family members regarding their finances as well as yours? Another potential unknown risk can be buried in your daily routine. Your car requires a substantial amount of repairs, a family medical emergency occurs, or your furnace can no longer be fixed and needs to be replaced. Many of these kinds of expenses, and plenty of others, require you to escrow money into a savings account to meet unforeseen bills without having to dip into retirement or other investment assets. Just how prepared are you?

If you do not know how you will meet this important need, write down a check mark.

Have you left the planning and monitoring of your retirement strategy to a web site, pie chart and 800 help number? Or worse, do you expect to resolve these issues, when they emerge, and your strategy is you'll "figure it out"? When was the last time you ran your retirement income plan through a set of 'lifeboat drills'? In our office, working with Federal employees, we begin to implement a blueprint to help achieve a prudent and disciplined structure that encompasses your SWAN. That is short for Sleeping Well All Night. Working in retirement should be your choice and not a financial requirement.

Federal employee question of the day

Question from an FAA federal employee in Arkansas: I will be eligible to retire at 57 years of age, and I have heard that even though I could retire I will not get to draw from my TSP at all without penalty is this accurate?

Have you ever had any questions like this?