Four Risks to Your Retirement Future

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As Americans live longer, the task of managing money after retirement gets more complex. A retiree in his or her mid-60s typically has a different risk profile than an individual approaching 90. It may be helpful to look at various types of risk from the vantage point of how they affect retirees at different life stages. Here are four key risks to consider.

1. Investment Risk -- Balancing risk and return takes on a different meaning for individuals as they age. A negative rate of return during the early years of retirement could leave an individual with a significantly smaller nest egg when compared with negative returns later in the retirement life cycle. Your financial advisor can help you craft an investment mix with the goal of smoothing out returns over the long term and increasing the chances that your assets will last throughout your lifetime.

2. Longevity Risk -- Withdrawing too much from a portfolio during the early years of retirement may heighten the chance of depleting your assets during your later years. For this reason, many financial advisors recommend limiting annual withdrawals to 5% or less of a portfolio's value, adjusted for inflation, to make assets last as long as possible.

3. Inflation Risk -- Because younger retirees typically are planning for a time horizon of 20 years or more, it is important that their portfolios include a source of growth that is likely to exceed inflation over the long term. To complement this potential growth, many retirees rely on more conservative investments that may generate income and help to balance risk and potential return.

4. Health Care Risk -- It is not unusual for medical costs to increase as retirees age, and it may be prudent to plan for these costs before the need is immediate. Preretirees and younger retirees may want to explore options for medical insurance that supplements Medicare, as well as long-term care insurance, to reduce the possibility of dipping into personal assets to finance illness- or accident-related expenses. Also, remember that those who retire before age 65 need to find an alternate source of medical insurance prior to becoming eligible for Medicare.

Reviewing these and other challenges associated with retirement planning with your financial advisor may increase your confidence that you have considered all scenarios. While it may not be possible to prepare for every situation, planning ahead may help you cope with financial issues that come your way.

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