RETIREMENT PLANS

How Is Your Post-Retirement Stacking Up? Three Key Questions

Financial planning doesn't stop at retirement, so it's important to keep track of how much income you actually need, what your income sources are and more.

(Image credit: Getty Images)

If you have successfully transitioned into retirement, congratulations! While it's an exciting new chapter, it's important to avoid taking shortcuts and to set yourself up for success through scenario planning to ensure that your monthly income and overall savings will cover you through all possible events.

Running out of money is a top concern for many retirees. To make sure that your post-retirement plan is stacking up, ask yourself these three key questions:

Question #1: How much income do I actually need?

Now that you've entered retirement, you may realize that your needs and goals differ from what you originally planned. When every day feels like a Saturday, it is easy for your spending to go up. I know a large percentage of my personal discretionary spending occurs during the weekends!

Between travel, health care, home renovations and supporting family members, there are many ways that people choose to spend their income in retirement. To make sure you can maintain your desired lifestyle, take time to recalculate your cost of living to reflect these expenditures and determine the amount of income you actually need.

Keep in mind, due to inflation, this number is likely going to grow over time to account for price increases for food, clothing, energy and health care. The cost of health care can grow faster than consumer prices and may become a major expenditure.

Question #2: Where will my money come from?

During retirement, it helps to arrange enough fixed sources of income — such as Social Security, defined benefit pension plans and retirement plan required minimum distributions (RMDs) — to cover all your essential costs. That way, if your portfolio is affected by a stock market decline, you can be fairly confident that you will still be able to pay for your core expenses.

If you're looking to further supplement your income, you can consider more flexible sources of revenue, like stock dividends and interest from bonds and CDs; the income from these sources may change due to market fluctuations and interest rates. Part-time work is also an option that many retirees consider. In fact, a recent survey by the Employee Benefit Research Institute reported that 27% of retirees chose to continue working to generate additional income.

Some may also consider an annuity to help increase cash flow. Annuities are insurance products designed to provide a stream of income and can be used to bridge the gap between your fixed income and the amount of money needed to cover monthly living expenses in retirement.

There are various annuities you can choose from — fixed, indexed, buffer, single premium immediate or variable annuity — and each comes with its own mix of risks and rewards, including different fees, features and benefits. In addition to being a source of retirement income, a subset of annuities offers tax-deferred growth. Of these, some enable you to participate in market growth, while providing downside protection of your principal. A financial adviser can help you determine what annuity, if any, will best serve your needs.

Question #3: How will I protect and manage my assets?

Life doesn't always go as planned, and you need to be prepared for the unexpected. Thinking about sickness and death can be uncomfortable, but planning for these scenarios before they arise is essential to preventing family stress and financial complications.

Original Medicare is federal health insurance for people 65 and older. It typically requires payment of coinsurance and doesn't cover all health care costs. Some people purchase Medigap insurance together with their Original Medicare insurance, and others may buy Medicare Advantage bundled plans instead that provide additional coverage like vision, hearing and dental services and sometimes prescription drug coverage. For most people, they should start looking into Medicare coverage three months before turning 65. Managing these medical costs will go a long way to protecting your retirement nest egg.

Retirees can also face substantial long-term care costs such as assisted living or a nursing home. Unfortunately, most people don't realize that Medicare won't cover most long-term care costs. Many individuals have to pay out of pocket or tap into investments to pay for long-term care.

When thinking of potential coverage options for long-term care needs, you may want to consider a hybrid long-term care insurance policy. These policies can help protect your savings from long-term care costs like assisted living while protecting your family's future inheritance. Although a hybrid long-term care policy can be more expensive than standalone long-term care insurance, some policies may offer guaranteed premiums, or premiums that will not rise in the absence of certain distributions from the policy. Plus, if the insurance is not needed, your beneficiaries will typically receive a death benefit. Using a long-term care calculator can help you determine if you're financially prepared for this potentially impending cost.

You should also consider setting up an estate plan to protect your wishes for the distribution of your assets to your family and loved ones when you are no longer around. Your will, trusts and power of attorney are three key components of the overall estate planning process. Additionally, you can prepare essential documents that address issues like guardianship of your children and how your loved ones should approach your medical decisions if you're incapacitated.

If you have not done so already, work with your tax and financial professionals to start discussing your post-retirement financial plan and meet with your legal adviser about drafting or updating your estate plan today.

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