



Are You Ready to Retire?

Most Americans are not financially prepared for retirement. The *Employee Benefits Research Institute (EBRI)'s 2017 Retirement Confidence Survey* found almost half (47%) of workers have less than \$25,000 in personal savings and investments, and about 25% have less than \$1,000.¹

Slightly more than 50% of survey participants were actively saving for retirement but few had taken other steps to prepare such as:¹

- Gauging monthly retirement income needs (38%)
- Estimating Social Security benefits at a planned retirement age (38%)
- Thinking about moving or downsizing (38%)
- Determining expenses in retirement (34%)
- Talking with a financial advisor about retirement planning (23%)
- Preparing a formal, written financial plan for retirement (11%)

Those most confident about retiring have spoken with a professional financial advisor about retirement planning.¹ Working with financial advisors and planning is critical for anyone who wants to retire from working full-time. The majority of workers and retirees participating in a recent *Wells Fargo* survey wished they had begun saving for retirement sooner than they did.²

Factoring in the healthcare variable

No matter when individuals begin to save or how much they're setting aside, even sound retirement plans can be disrupted by rising healthcare costs and catastrophic illness. Americans have voiced concerns about healthcare costs but few have factored healthcare expenses into their retirement plans.²

According to a recent *Wells Fargo* survey, "Nearly half of workers (45%) have not actively considered healthcare expenses for retirement planning, and even among workers age 60+ nearly a quarter (23%) have failed to take healthcare expenses into account."²

Healthcare expenses have increased faster than inflation in recent years. In addition, patients are being asked to pay a larger share of the expense. U.S. government figures show spending on healthcare rose by 5.8% in 2015. From 2016 through 2025, spending was expected to grow by 5.6% a year, on average.³

Retirees feel the effects of higher healthcare costs more than younger Americans do. *The Centers for Medicare and Medicaid Services* reported, "Per person, personal healthcare spending for the 65 and older population was \$18,988 in 2012, over 5 times higher than spending per child (\$3,552) and approximately 3 times the spending per working-age person (\$6,632)."³

So, how much is healthcare likely to cost during retirement? An expert cited by *Morgan Stanley* suggested the average retired couple "will spend somewhere between \$259,000 and \$395,000 over the course of their retirement, depending on their lifespan and health conditions."⁴

That may shock those who believe they need less than \$500,000 to retire comfortably (about 33% of those participating in the EBRI RCS).¹ Even for people who plan to save more, adding healthcare expenses to retirement calculations may significantly increase savings goals.

Climbing toward a comfortable retirement

If thinking about retirement makes you a bit queasy, it's likely you haven't prepared as well as you should. The good news is developing and implementing a retirement plan can be fairly straightforward. Here are a few steps that can help boost retirement confidence:

- **Create a retirement budget.** A retirement budget can start with your current household budget and be adjusted for changes expected in retirement. Write down (item by item, line by line) how much you expect to spend in retirement. Obviously these estimates will become more accurate as retirement nears.
- **Save for retirement.** For many people, a successful retirement strategy means saving at least 15% of their income.⁵ Those who have the good fortune to participate in an employer's retirement plan may benefit from employer-matching contributions. If you don't have a retirement plan at work, ask your financial advisor what kind of plan is right for you and set-up automatic contributions each pay period.
- **Choose a diversified investment strategy.** Asset allocation is dividing your savings among different investments, such as stocks, bonds, and other options. Roboadvisors determine your asset allocation by your age, risk tolerance, and retirement goals⁵ but an engaged financial advisor will learn more about you and customize your investments to your unique point of view.
- **Prepare for long-term care.** 3 out of 4 retirees will need extended long-term care. If you haven't planned for it, the cost can really put a dent in your retirement savings. Medicare Part A covers skilled nursing care in a skilled nursing facility for a specific period of time after hospitalization. It does not pay for custodial care for Alzheimer's or other cognitive illnesses. Consequently, it may be wise to purchase long-term care insurance or add a long-term care rider to a life insurance policy.⁶
- **Review your plan at least annually.** Retirement planning is not a static activity. Retirement goals may change significantly over a lifetime as your job, income, lifestyle, family, health, and likes and dislikes change. As a result, it's important to review retirement plans often and make any changes needed.

Will you be able to retire comfortably? It's a complicated question. The answer can be equally complicated. For help figuring it out, or a review of your current plan, contact your financial professional.

Sources:

¹ https://www.ebri.org/pdf/surveys/rcs/2017/RCS_17.FS-3_Preps.Final.pdf

² <https://www08.wellsfargomedia.com/assets/pdf/commercial/retirement-employee-benefits/perspectives/2017-retirement-study.pdf>

³ <https://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/nhe-fact-sheet.html>

⁴ http://www.morganstanley.com/ideas/healthcare-costs?subscribed=true&et_mid=27146&et_mkid=05dcda3fc149857c3a3cc45c1c6dc98b

⁵ <https://www3.troweprice.com/usis/personal-investing/planning-and-research/t-rowe-price-insights/retirement-and-planning/retirement-savings/are-you-on-track-for-a-successful-retirement-.html>

⁶ <https://longtermcare.acl.gov/the-basics/who-needs-care.html>

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