By Adam Cufr

I discuss this list regularly with clients to help them understand how important this phase of their planning is, and also to pinpoint a few risks that are incredibly important, but often overlooked. Beyond basics like market risk and interest rate risk, here are a few that you may find valuable.

7 RETIREMENT PLANNING RISKS *you may not have considered*

1) **LONGEVITY RISK** Medical advances are leading to longer lifespans. This is probably no surprise to you, but I would like you to consider a new twist on this growing challenge. When retirees live longer lives, not only do they run a greater risk of depleting their assets, they can lose perspective about time itself. This can have a significant impact in the realm of behavioral economics. Specifically, the decisions they make early in retirement may not have immediate consequences. A bad choice in the first year of retirement may not show its effects in year two. But over many years, the outcomes of their decisions compound, either positively or negatively. A lifestyle choice can feel good for a few years, but cause significant harm as the years pass. Therefore, the risk of living long in retirement needs to be considered in more ways than just asset allocation. Overspending on a new home in a tennis community hundreds of miles from family feels great until one spouse is confined to a wheelchair without extended family nearby to lend a helping hand.

2) **FRAILTY RISK** Are you a practitioner of the systematic withdrawal income planning strategy? When administered correctly, this requires an annual (or more frequent) adjustment of the clients' spending to reflect the safe withdrawal rate their portfolios can support. What happens when the client ages, slows down and is unable to respond to phone calls or visit you in your office to make those adjustments? Worse yet, what if they lose their decision-making abilities altogether? Their need for income and care hasn't diminished, but they're unable to work closely with you. This risk of the client's age-related frailty can have meaningful consequences for your ability to serve their needs if you have chosen a complex income strategy for them. This may warrant a discussion about guaranteed income strategies that will help provide needed income, even when the client isn't as healthy as they were when they began their income plan.

3) **FORCED RETIREMENT RISK** Your client plans to work until age 66 in order to reach full retirement age with Social Security benefits. Unfortunately, a personal health issue forces them to retire at 61. Are they financially prepared to support the lifestyle to which they've grown accustomed? How will you adjust their planning to respond to this change? Are their assets positioned in such a way that they have adequate liquidity to meet their needs, or will they be forced to tap into assets at a cost to them? A big emergency fund may not generate attractive yields, but the peace of mind it provides can help turn an unexpected retirement into a blessing.

4) **LOSS OF SPOUSE RISK** What happens to the family income when a death occurs? Oftentimes, you'll hear that retirees don't need life insurance. After all, they have enough assets to retire, so they're self-insured, right? Not so fast. It is imperative to evaluate survivor benefits in pensions and Social Security. What may feel like a comfortable retirement can become downright terrifying upon the death of a spouse. Income sources are often halved, yet lifestyle costs for the widow remain very similar to those of a couple. Widows may need to pay for home maintenance that was once handled by their spouse. Travel costs can increase because of trips to visit family located across the country. The last thing a widow needs to be concerned with is where to get income after the death of her spouse. By asking a few simple questions when times are good, we can insure them against a disappointing finish to a race well run.

5) LEGACY RISK

Retirement income planning is all about balance. Balancing often competing interests is the name of the game. One example is that of legacy risk. Case-in-point: Your client wants to maximize her retirement income and wishes to leave assets for her children and grandchildren as a legacy. Meanwhile, she would like to avoid all market risk and have abundant flexibility and access to cash for unforeseen emergencies. In this example, building a maximum income plan using guaranteed annuities will most likely eliminate any meaningful financial legacy or bequest for her family. While the annuities may maximize her income, they will likely be exhausted upon her death, leaving nothing behind. This may be fine if she has a home and other non-financial assets that will become part of her legacy. The risk here is that her wishes are not well-documented and provided for in her planning.

6) HEALTH CARE EXPENSE RISK

It's no mystery that health care is on the minds of aspiring retirees. How can we plan for this risk when we cannot accurately quantify the cost? Reduce the variables. As in a mathematical equation, too many unknowns create an unsolvable problem. In retirement planning, too many variables can prevent us and our clients from adequately addressing any particular concern. The result is a swirling storm of questions and partial answers. Rather than questioning whether your client can afford to pay more for health care during retirement, have them track their spending for a month or two. Learn how much money is going out each month to maintain their chosen lifestyle. Compare that to known income sources like Social Security, pensions, income available from their investment portfolio, etc. Once you know their true lifestyle costs and income, you can discover how much is truly excess or discretionary. This may provide more wiggle room to account for rising health care costs. By isolating this variable, you can perform true risk assessment for them and move toward greater clarity.

7) LONG-TERM CARE RISK

For people age 65 or older, there is a 40 percent chance they will step foot into a nursing home during their lifetime. This risk is not new to most advisors. What's interesting is how much this risk affects retirement income later in retirement. Some refer to this retirement spending curve as the "retirement smile." The most damaging inflationary force for the retiree is long-term care expense. We have so many tools at our disposal compared to 10 years ago, that it's a shame to not be well-versed in this planning area. As longevity continues to increase, more and more of our retired clients will qualify to receive income from a long-term care qualifying financial product. Why not address long-term care risk for your client with leveraged and tax-advantaged dollars in the form of traditional or hybrid long-term care products? Want to become really valuable to your client? Regularly feature an estate planning attorney at your client events and meetings to provide them with legal and estate planning that complements your insurance and financial-based offerings. Your clients will love the additional options and will thank you down the road. I promise. **RA**

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