ACCOUNTING FOR THE UNKNOWNS IN RETIREMENT

Asking, “What if?” when creating your retirement income plan may help prevent, “If only I’d have known.”

“You don’t know what you don’t know.” That thought may drive fear into folks nearing or living in retirement. Unknown risks can have a devastating effect even on the most well-developed retirement income plan. However, you can begin to overcome this hurdle by simply asking, “What if?” This simple question in the context of financial planning can help avoid the lament of “If only I’d have known.”

THE “WHAT IF?” OF HEALTH
The first “what if?” could account for some of the largest expenses in retirement: “What if I develop health issues?” As American life spans increase, rising healthcare costs become an increasingly important factor. This not only involves medical expenses but also long-term care costs.

Remarkably, healthcare costs are often underestimated in retirement planning. This mistake has led many retirement dreams to fade as assets get diverted to runaway healthcare costs.

One reason is many people think Medicare will fully cover them, but it won’t. Today, Medicare only covers about 60% of retirees’ medical costs. That leaves 40% that must be covered by supplemental insurance, bringing with it additional premiums, copayments, deductibles and out-of-pocket expenses.

Other startling healthcare-in-retirement statistics come from studies suggesting one-third of people who turned 65 in 2010 will require at least three months of nursing home care; 24% for more than a year; 9% for more than five years. But Medicare does not cover long-term care.

That’s why many turn to long-term care insurance to help manage this unanticipated expense by covering a range of nursing, social and rehabilitative services.

THE “WHAT IF?” OF DISABILITY
Disability can vary by form and degree. If you become disabled before you complete your retirement plan, it can have far-reaching consequences.

Rates for care continue to climb. The good news is cost-for-care is a known unknown. That means at this particular time, it’s unknown if you’ll experience poor health and require care, but at least you can plan for it and protect against it if you do become ill. **Source:** Prudential, 2010
For instance, if you’re the sole income earner, disability can curtail, if not derail, future plans. Even if you’re not the sole breadwinner, it can lengthen the time it takes to fully fund your plan. And depending on the severity of the disability, from temporary to permanent, rehabilitative care may require additional funds above those provided through Medicare or health insurance.

Disability after retirement also has implications regarding unforeseen costs for care. And if you choose to work in retirement to supplement income, you can lose that cash flow temporarily or permanently due to disability.

It’s important for you and your financial advisor to consider ways to protect yourself and your retirement income from potential consequences of disability. You may have a disability plan through your current employer, which is optimal for pre-retirement years. If you don’t, your advisor may suggest adding premiums for a disability policy into your pre-retirement saving or retirement spending plan.

THE “WHAT IF?” OF UNEXPECTED LOSS

Now we come to what is likely the most sobering “What if?” of all: “What if my spouse or I die unexpectedly?” The thought alone is difficult to wrangle with, but planning for that scenario can be daunting and uncomfortable. Many people face the issue knowing it gives their families the best possible chance of financial stability in the event of a sudden loss.

Planning ahead using various investment vehicles, such as life insurance, can help ensure those left behind are not burdened with significant debt and immediate expenses, like funeral costs. Life insurance can also ensure the completion of a financial plan for the spouse left behind, cover estate taxes and infuse cash into a business to cover the loss of a key employee. Remember, there are many forms of life insurance; your advisor can help determine which is right for your situation.

This certainly does not cover every “What if?” that can affect your financial plan. But by talking to your advisor, you may uncover the particular “What if?” risk that can harm your plan and take positive steps to alleviate it.