CAPSTONE RETIREMENT GROUP

April 2019

Reducing the Risk of Outliving Your Money

What steps might help you sustain and grow your retirement savings?

The Month in Brief

The Federal Reserve altered its outlook on interest rates in March, and the stock and bond markets certainly took notice. Both the Fed and the European Central Bank communicated that they saw economic growth moderating. Even so, the S&P 500 managed to advance 1.79% for the month. Trade talks continued between the U.S. and China, but without much in the way of real developments. New reports revealed a sudden slowdown in hiring and only mild inflation. Existing home sales accelerated, crude oil gained value, and the Brexit saga took yet another turn.[1]

% CHANGE	Y-T-D	1-MO Change	2018
DJIA	11.15	+0.05	-5.63
NASDAQ	16.49	+2.61	-3.88
S&P 500	13.07	+1.79	-6.24
Bond YIELD	3/29 RATE	1 MO AGO	1 YR AGO
10 YR TREASURY	2.41	2.73	2.74

Sources: barchart.com, bigcharts.com, treasury.gov – 3/29/19[1,16,17,18]
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

Monthly Quote:

“He who knows that enough is enough will always have enough.”
LAOZI

Monthly Tip:
In view of possible extended care needs, you may want to look at a hybrid life insurance policy that can potentially give you a pool of money to pay those costs. Unused benefits may be paid to the policy’s beneficiaries after your death.

Monthly Riddle:
It is filled with garb, and the price is free; you can take whatever you like and return what you don't need. What is it?

Last Month’s Riddle:
What has four legs, bears weight without complaint, and never makes a peep when food is brought its way?

Last Month’s Answer:
A table.

Reducing the Risk of Outliving Your Money

What steps might help you sustain and grow your retirement savings?

"What is your greatest retirement fear?" If you ask any group of retirees and pre-retirees this question, "outliving my money" will likely be one of the top answers. In fact, 61% of investors surveyed for a 2018 AIG retirement study ranked outliving their money as their top anxiety.[1]

Retirees face greater "longevity risk" today. The Census Bureau says that Americans typically retire around age 63. Social Security projects that today's 63-year-olds will live into their mid-eighties, on average. This is a mean life expectancy, so while some of these seniors may pass away earlier, others may live past 90 or 100.[2,3]

If your retirement lasts 20, 30, or even 40 years, how well do you think your retirement savings will hold up? What financial steps could you take in your retirement to try and prevent those savings from eroding? As you think ahead, consider the following possibilities and realities.

Realize that Social Security benefits might shrink in the future. In 2000, there were four workers funding Social Security for every retiree receiving benefits. By federal estimates, there will be only 2.2 workers funding Social Security for every retiree in 2035. This may not bode well for the health of the program.[4]

For decades, Social Security typically took in more dollars per year than it paid out. That ongoing surplus – also known as the Social Security Trust Fund – is now projected to dry up by 2034. Congress may act to address this financing issue before then, but the worry is that future retirees could get slightly less back from Social Security than they put in. It may be smart to investigate other potential retirement income sources now.[4]

Understand that you may need to work part time in your sixties and seventies. The income from part-time work can be an economic lifesaver for retirees. Suppose you walk away from your career with a hypothetical $500,000 in retirement savings. In your first year of retirement, you decide to withdraw $25,000 of that for some of your income. You keep doing that year after year. That money will be gone in 20 years. (Inflation might lead you to draw it down faster.) What if you worked part time and earned $20,000-30,000 a year? If you can do that for five or ten years, you effectively give those retirement savings five or ten more years to last and grow.

Retire with health insurance and prepare adequately for out-of-pocket costs. Financially speaking, this may be the most frustrating part of retirement. You can enroll in Medicare at age 65, but how do you handle the premiums for private health insurance if you retire before then? Striving to work until you are eligible for Medicare makes economic sense and so does building a personal health care account. According to Fidelity research, a typical 65-year-old couple retiring today will face out-of-pocket health care costs approaching $300,000 over the rest of their lives.[5]

Many people may retire unaware of these financial factors. With luck and a favorable investing climate, their retirement savings may last a long time. Luck is not a plan, however, and hope is not a strategy. Those who are retiring unaware of these factors may risk outliving their money.

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About Capstone Retirement Group

Capstone Retirement Group is a professional retirement plan consulting firm. We partner with plan fiduciaries to identify and implement the optimal retirement plan for their organization.

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