MAKING THE TRANSITION TO RETIRED LIFE

Flourish
WEALTH MANAGEMENT

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AFTER ALL YOUR YEARS OF HARD WORK AND DISCIPLINED SAVING, YOU'VE MADE IT TO RETIREMENT – CONGRATULATIONS! NOW, THE CHALLENGE BECOMES TACKLING COMMON RETIREMENT TRANSITION CONCERNS SO THAT YOU CAN LIVE OUT THE IDEAL RETIREMENT YOU'VE DREAMED OF.

Step One: Your Budget

Many retirees are surprised by the vast changes in their monthly budgets once they leave the working world. Though you may spend much less on clothing and commuting, it's possible your spending will increase overall. After all, you'll be free to meet friends for lunches out, take up new hobbies, and travel. So, before you retire, put focused time toward estimating what your new budget might look like. Factor in all your household expenses, both needs and wants, and make sure to leave room for unexpected expenses, too. You want to make sure that the retirement lifestyle you're envisioning will be sustainable. If you find that your budget is not adding up the way you'd hoped, you can prepare to make changes before you leave your career. For example, you may find that downsizing drastically reduces your monthly bills, or you may realize you no longer need two vehicles. Whatever specific moves you make, your goal is to draft a realistic retirement budget to guide this next phase of your financial life.

Step Two: Social Security Benefits

Did you know that your Social Security benefits will be higher or lower depending on the age at which you apply for them, and that your benefit amount will be locked in for life? For that reason, having a strategy for when you'll begin receiving your Social Security benefits can make an important impact on your financial future. Consider this: though you can apply for your benefits as early as age 62, doing so means a 30 percent reduction in your monthly benefits. Each year you wait from age 62 to age 70, your benefit amount will increase by 8 percent each year. So, if you delay receiving your Social Security until 70, you can be certain to receive your full benefit amount. Of course, it's not always feasible to delay that long, and many people apply for their benefits sooner. The important thing is that you fully understand the decision you're making, and the impact it will have on your finances.

Step Three: Medicare and Long-Term Health Care

One of the largest – and most underestimated – expenses in retirement is health care. Today, it's estimated that a 65-year-old couple retiring can expect to pay approximately $330,000 in healthcare costs in retirement. Many retirees are excited at the prospect of filing for Medicare, which everyone must do at age 65. While it's true there are many benefits to eschewing private insurance plans in favor of this long standing government program, Medicare won't cover everything, and you can choose to have a private insurance plan also. If you are covered by private insurance or an affinity group like AARP, you are able to have both coverages, though one is deemed the primary payer and pays the claims first.

Since many retirees underestimate how much Medicare costs, while also overestimating how much it will cover, this cost and coverage breakdown can help you anticipate your financial needs for health care in retirement:

Medicare Part A does not require a premium, as long as you paid Medicare taxes while working. If you didn't, you're looking at premiums of up to $506 per month. Part A includes coverage for hospital visits.

Medicare Part B is where you'll find your coverage for outpatient doctors' services, and your premium depends on your income. You will also have to pay copays, along with some out-of-pocket expenses.

Medicare Part C is commonly referred to as Medicare Advantage, and these are Medicare health plans provided by private companies that contract with the federal government. They can cover Medicare Parts A, B and D, along with other benefits such as hearing, vision or dental care (which are not covered by Parts A and B). For these plans, your benefits and your costs will vary by state.

Medicare Part D plans specifically help to cover prescription drug costs. You can purchase a standalone plan, or you can opt for a Medicare Advantage plan that includes drug coverage.

STRATEGIC ASSET ALLOCATION FOR RETIREMENT WEALTH: A CASE STUDY

Mr. Smith came to us on his journey towards optimizing his retirement wealth through strategic asset allocation. We discussed the importance of proactive planning and explained the positive outcomes that might be achieved by designing a well-aligned investment strategy.

Background:

Mr. Smith, nearing retirement at age 60, sought guidance to review his investments and ensure they supported his retirement goals effectively.

Assessment and Analysis:

To begin the process, we conducted a comprehensive assessment of Mr. Smith's financial situation, including his retirement goals, risk tolerance, and time horizon. Through detailed discussions and analysis, we identified his primary objectives: generating consistent income, mitigating downside risks, and maintaining long-term growth potential.

Strategic Asset Allocation Plan:

Based on Mr. Smith's unique circumstances and goals, we formulated a strategic asset allocation plan. This involved determining the optimal mix of asset classes such as stocks, bonds, cash, and alternative investments to align with his risk profile and desired outcomes.

Diversification for Stability To manage risk and enhance stability, we focused on diversifying Mr. Smith's portfolio across various asset classes. By spreading investments across different sectors, regions, and investment styles, we aimed to reduce exposure to any single market fluctuation.

Income Generation Given Mr. Smith's objective of generating regular income during retirement, we allocated a portion of his portfolio to fixed-income assets such as bonds, treasury notes, and dividend-paying stocks. This ensured a consistent stream of income to support his lifestyle needs.

Growth and Capital Appreciation While prioritizing income generation, we also recognized the importance of maintaining long-term growth potential. We allocated a portion of Mr. Smith's portfolio to equity investments, including a mix of large-cap, mid-cap, and international stocks. This allocation aimed to capture growth opportunities and provide potential capital appreciation over time.

Risk Management and Rebalancing Regular portfolio monitoring and rebalancing were key components of the strategic asset allocation plan. We set predetermined thresholds for each asset class to ensure the portfolio stayed aligned with Mr. Smith's target allocation. By periodically rebalancing, we aimed to control risk, maintain diversification, and seize opportunities for potential growth.

RESULTS AND OUTCOMES:

The strategic asset allocation plan provided stability, generated consistent income, and delivered growth potential, resulting in favorable outcomes for Mr. Smith's retirement portfolio. By adopting a strategic asset allocation approach, Mr. Smith successfully optimized his retirement wealth, achieving his goals through a well-aligned investment strategy.

While it can be difficult to think about the realities of aging, it's important to consider your potential long-term health needs, too. Many retirees are surprised to learn that Medicare does not pay for long-term care, nursing facilities, assisted living or adult daycare. Medicare will also not cover home care. Since data suggests that about 70% of retirees will require these types of care, it can be financially devastating to neglect to plan for it. Medicare does cover costs related to short-term recovery needs and may cover end of life hospice care. However, it may be worth purchasing long-term care insurance. Another option would be adding a rider to an existing life insurance policy, where you can take advantage of accelerated benefits and use a portion to cover long-term or end-of-life care. Health Savings Accounts (HSAs) offer a tax-advantaged way to plan for higher health costs in retirement, but they are only available if you have a high-deductible health plan (HDHP). Of course, you can also earmark a portion of your savings for potential long-term care needs.

Step Four: Investments and Legacy

Before you retire, you should plan to look over all of your investments and design a strategic asset allocation plan. Certain investments will require minimum distributions once you reach a certain age, meaning your taxable income may change. Planning ahead can make a big difference. For example, you may want to roll certain assets into tax-deferred accounts to avoid penalties or taxes. In addition to managing and reallocating your investments, you should review all your important documents, as well. This is the perfect time to check that your beneficiaries are current on any policies, that you have an up-to-date will, and that you have power of attorney for both financial and medical issues. The more you prepare in advance, the more peace of mind you'll have as you begin your retirement years.

WOULD YOU LIKE TO DISCUSS YOUR RETIREMENT PLAN?

Schedule your Discovery Call by visiting us at flourishwealthmanagement.com or calling us at (952) 392-4474.

1 https://www.fidelity.com/viewpoints/personal-finance/plan-for-rising-health-care-costs
2 https://aspe.hhs.gov/reports/what-lifetime-risk-needing-receiving-long-term-services-supports-0

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