5 Challenges to Your Financial Security

For many Americans, the definition of retirement success is simple: It means having enough money to live the type of retirement they want.

Not too long ago, workers had traditional defined-benefit pension plans that kept them going from the day they retired until the day they died. Not so anymore. Today, creating financial security for the future is likely to fall largely on your own shoulders. You can still have the retirement of your dreams, but you’ll need to plan for it and make wise choices about your money. That process can be made easier if you take into account certain risks that could derail your future financial security, including longevity risk, inflation risk, soaring health care costs and the risk you may need long-term care.

To help you get started, consider the following:

1) **Don’t underestimate your life expectancy.** Many Americans approaching retirement are concerned about outliving their retirement savings — and for good reason. Today, a 65-year-old American man in good health has a 50 percent chance of living to age 85; a 65-year-old woman can expect to live to 88.¹ But averages don’t tell the whole story. You may be in better health than the average 65-year-old or have longevity in your family. How do you ensure your retirement savings last as long as you need them to? Consider turning a portion of your retirement savings into an annuity — one of the only investments that can provide a reliable stream of income that is guaranteed to last your lifetime, however long that may be.

2) **Protect your spouse.** According to a Society of Actuaries survey, 43 percent of married retirees worry about maintaining their spouse’s standard of living after their death.² The death of a breadwinner spouse can trigger a dramatic decline in a surviving spouse’s lifestyle. Solutions such as life insurance can help protect your loved ones from financial hardship by providing funds to help your family meet basic expenses, should something happen to you.

3) **Don’t ignore inflation.** A dollar today will be worth less at retirement because of the impact of inflation on the cost of everyday goods and services. Even a relatively modest 3 percent rise in prices means $100 worth of groceries today will cost $200 in just 24 years. To make sure your retirement savings keep pace with inflation, consider time tested strategies like investing in growth-oriented investments such as stocks and stock-based mutual funds. Annuities that offer a cost-of-living adjustment may also help protect your retirement savings against the impact of inflation over time.

4) **Take the temperature of health care costs.** Longer life spans, skyrocketing medical costs and decreasing health care coverage by private employers make managing medical expenses a significant concern for retirees. In fact, according to a study by the Center for Retirement Research, a typical married couple turning 65 and free of chronic disease would need at least $197,000 to supplement Medicare and cover all their remaining out-of-pocket health care costs (excluding nursing home care) during retirement — or roughly $5,000 per person per year.³ New health care provisions set to go into effect in 2014 may reduce premiums

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somewhat, but if medical costs continue to trend higher, half of retirees in 2030 could spend more than one-quarter of their income on medical bills and insurance premiums.\textsuperscript{4}

To help pay some of the services not covered by Medicare, consider purchasing supplemental health insurance and boosting the savings you have earmarked for medical expenses in retirement.

5) \textbf{Think long term}. One of the greatest risks to retirement planning is the cost of long-term care. That’s because one-third of people will need some type of long-term care during their lives, according to the National Association of Health Underwriters.\textsuperscript{5} The annual cost of that care? About $71,000 for a semi-private room and $79,000 for a private room; assisted living facilities average $34,000 per year.\textsuperscript{6}

Medicare may help, but it currently covers a maximum of 100 days in a nursing home. That’s why it may be important to consider disability income insurance and a long-term care policy to help protect your lifetime savings against the potentially devastating financial impact that a prolonged injury or illness can create. Long-term care insurance is based on age, so the earlier you purchase a policy, the lower the annual premiums may be.

There is a lot to look forward in retirement, including having the time and freedom to pursue whatever activities make you happiest. Developing a realistic financial plan to help meet your needs as you transition through retirement can seem overwhelming, however. You don’t have to go it alone. Your BMO Harris Financial Advisor can provide useful information, as well as valuable perspective, on the options for successfully creating the lifestyle you want now and for years to come.