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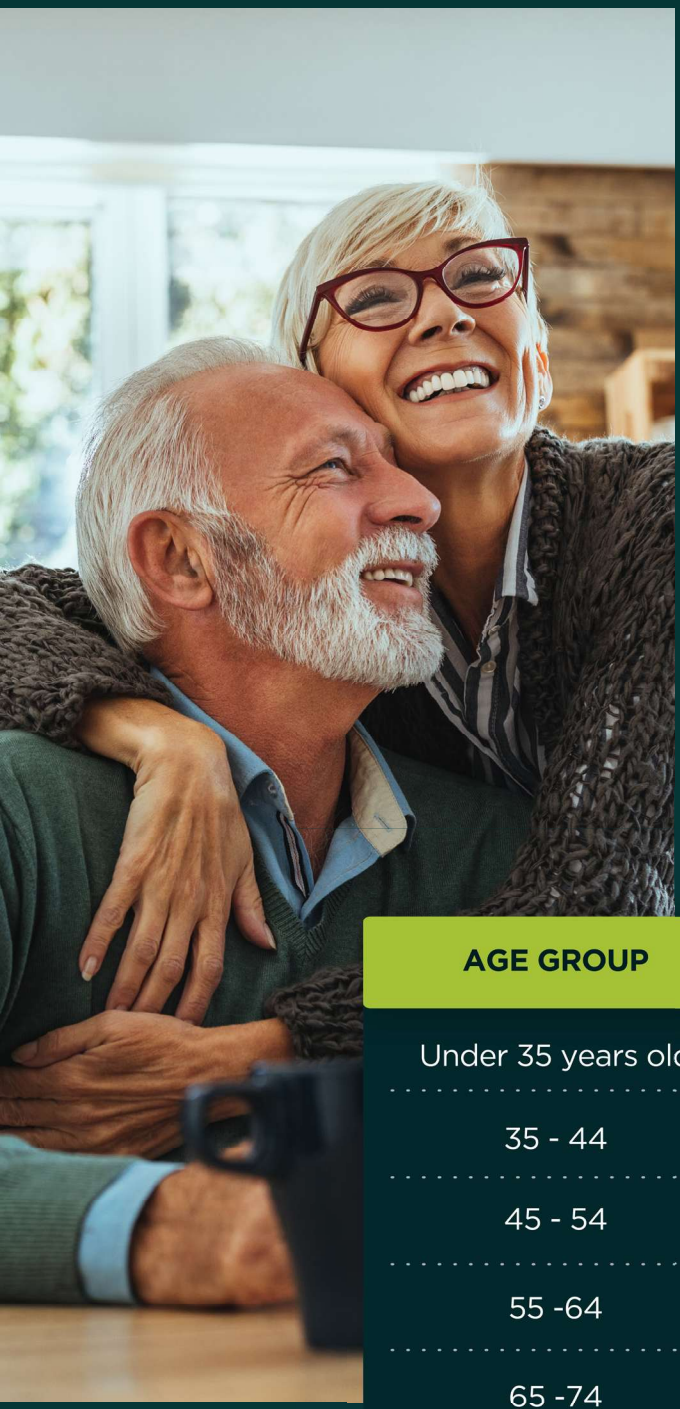
HOW TO NOT RUN OUT OF MONEY IN RETIREMENT

Enjoying a fulfilling retirement is the pinnacle of honoring life's hard work. But without proper planning, retirees risk not having the money they need to support their retirement years. In this whitepaper, we explore ways you can prepare for building a stable financial foundation that helps you afford to retire — and live the lifestyle you envision.



HOW TO NOT RUN OUT OF MONEY IN RETIREMENT

Retirement is a cornerstone achievement for many people. Swapping years of hard work for an enjoyable retirement opens up a new chapter in life for many retirees. In the U.S., the average person retires at age 62.[1] However, not everyone is ready to financially afford this life stage. According to an AARP survey, 26% of people over 50 years old never expect to retire and 37% are worried about being able to afford basic needs, like food and housing.[2]

Saving enough money to support your retirement years is a critical step in financial planning. Yet, Americans often aren't saving enough. While there's no specific amount of how much someone must save for retirement, many people believe they need to save at least $1.8 million.[3] This amount is far less than the savings Americans actually hold. For people who are between 65 and 74 years old, the median retirement balance is $200,000.[4]

AGE GROUP	AVERAGE RETIREMENT BALANCE	MEDIAN RETIREMENT BALANCE
Under 35 years old	$49,130	$18,880
35 - 44	$141,520	$45,000
45 - 54	$313,220	$115,000
55 -64	$537,560	$185,000
65 -74	$609,230	$200,000
75 and up	$462,410	$130,000

Source: Board of Directors of the Federal Reserve System: https://www.investopedia.com/average-retirement-savings-by-age-8740967

SO, HOW MUCH SHOULD YOU SAVE?

A good rule of thumb is to prepare to replace at least 80% of the income you have before retirement.[5] Of course, many factors can affect how much money you truly need to have, which is why planning for your unique financial life and retirement goals is critical.

To help you, here are six priorities you can address for working to make sure you don't run out of money in retirement.

1 PRIORITY
CREATE A COMPLETE FINANCIAL PLAN

An essential first step toward having enough money in retirement is to create your financial plan. However, many people overlook this important factor. According to one survey, only 36% of people have a financial plan.[6] By not planning for their financial future, people can potentially make decisions that could go against their ability to afford retirement.

Working with a financial advisor to create your retirement plan has various positive benefits. According to a survey by T. Rowe Price, people feel more confident about retirement when they have a plan in place. And it could affect your ability to know how much money you can even take out of your accounts to support retirement. Only 18% of people who don't have a financial plan know how much money they can withdraw.[7]

SO, WHAT DOES A FINANCIAL PLAN HELP YOU CONSIDER?[8]

- Identifying your retirement goals
- Prioritizing between your short- and long-term goals
- Preparing for tax obligations and how to minimize them
- Reducing debt and creating savings strategies
- Building a diversified investment portfolio toward your goals
- Creating a retirement-income strategy

Other benefits can also emerge. To get ahead, it's best to start your retirement planning as early as you can. Doing so you helps you have more time to let your money grow and build a comfortable savings.[9]

How much income should you withdraw in retirement?

Your unique retirement goals and financial foundation play a role in knowing what amount of money is safe for you to withdraw.

Historically, identifying your withdrawal rate depends on various factors:

1. How the market is performing when you're drawing-down money
2. How long you plan to withdraw money
3. How quickly or slowly you withdraw during retirement
4. How you've allocated your investments

Source: Morningstar: https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/ ta5c12d9c24fbea0c/6758954030b28053f1df2e4e/State_of_Retirement_Income_2024.pdf

2 PRIORITY
DIVERSIFY YOUR INCOME SOURCES

Retirement could potentially last for a least a couple decades for many retirees. In fact, people are living longer than before and are experiencing longer retirements. This scenario means people will need more money in retirement than in previous generations.[10] Building diverse income for retirement could be a key method for helping to make sure you're creating sustainable streams of money to live on.

This threat of not enough money in retirement is real: According to a Morningstar survey, almost 50% of people who retire at 65 years old will not have enough money to last retirement.[11]

When breaking down the data between men and women, women are more at risk: Single women have a 55% risk of running out of money in retirement, while single men have a 40% threat of doing so.[12]

To help overcome this risk, one sound strategy is to diversify where your money comes from. A positive outcome of diversifying your income is it can help retirees overcome effects that could emerge from inflation. Over the years, inflation could make basic needs cost more than double the amount of when someone first retires. Your money wouldn't go as far as you expect it to if inflation spikes during retirement. So, maintaining your purchasing power is critical.[13]

Want to better afford retirement? Consider delaying retirement closer to 70 years old. Doing so could potentially reduce your risk of running out of money.[14]

WHICH INVESTMENTS MAKE SENSE TO PURSUE?

While your specific retirement goals and income needs will drive your financial strategies, here are some diversified income streams to be aware of:

GUARANTEED INCOME

This type of retirement income means a steady amount of money that you receive each month without interruptions. And because guaranteed-income sources typically aren't tied to the markets, they can help retirees overcome the fluctuations that investments like stocks can bring.[15]

Common sources can include:[16]

- Social Security payments
- Traditional pension plans
- Annuities
- Insurance contracts

VARIABLE INCOME

This type of income can change and shift with the markets, which can be helpful for growing money. Investing for the long-term can help your money grow and support more money to withdraw in retirement. Historically, these investments have shown the potential for growth over the long term. But like all investments, they carry risk and returns are not guaranteed.

Common sources can include:[17]

- Mutual funds
- Exchange-traded funds
- Variable annuities

Once you plan for diversifying your retirement income, you'll also want to plan for strategically withdrawing money to help make it last as long as possible. Your unique financial life will drive the withdrawal strategies that work best for your retirement-income needs.

PASSIVE INCOME

This type of income is money that you earn from income-generating investments that require little to no effort from you. When combining it with other income sources, you could potentially support a stronger financial foundation in retirement.[18]

Common sources can include:[19]

- Rental income from real estate – rent property you own or invest into a real estate investment trust (REIT)
- Savings accounts
- Money market accounts
- CDs

3 PRIORITY
PREPARE FOR TAXES

No one wants to retire only to see their retirement income dwindle by taxes. Knowing how taxes play a role in your retirement strategies is a critical step in helping to ensure you don't run out of money. Working with tax and financial professionals can help you create tax strategies that potentially lower your tax obligations and possibly even move you into a lower tax bracket.

Here are some tax details to keep in mind:[20]

- Social security taxes: You may have to pay income tax on your Social Security benefits, depending on how much retirement income you have. You may have to pay taxes on 50 – 85% of your benefits.
- Tax-deferred investments: You may need to pay taxes on distributions from tax-deferred investments like pensions, IRAs, 401(k), and more.
- Taxable accounts: You may end up paying taxes on interest you pay on investments in taxable accounts, as well as taxes on capital gains and qualified dividends.
- Medicare surtax: You may have to pay an additional Medicare tax on either your net investment income or adjusted gross income (AGI), whichever is less. Paying the tax on AGI starts at $200,000 for people filing single taxes and $250,00 for couples filing jointly. The taxes could be 0.9% of your income or 3.8% of your investment income.[21]

Planning ahead today to help minimize your tax obligations in retirement can assist you in keeping more income in your pocket.

4 PRIORITY MANAGE RISK

Managing risks to your financial security can help you take proactive planning steps that could enable you to minimize this threat on your retirement income. Whether from changes in your household income, your health, and more, various risks can emerge throughout retirement.

Here are some risks to keep in mind as you look to build a sound financial future for retirement:

HIGH HEALTHCARE COSTS

One risk that retirees hold is the high costs of medical events during retirement. Retirees may need up to $165,000 in savings (after taxes) to cover medical costs.[22] A significant amount of money could potentially impact your retirement income without careful planning.

One strategy to consider is exploring if long-term care insurance could potentially help you manage your healthcare costs. This product could help you manage expenses associated with nursing homes, home healthcare, and personal or adult daycare.[23]

DEATH OF A SPOUSE

Losing a spouse during retirement could affect your financial standing by adding additional expenses you must pay, as well as creating a loss of income. If both spouses received Social Security benefits, the surviving spouse would now only receive one payment. Your Medicare Parts B and D premiums could also increase. Further, having to file taxes as a single filer could also change the tax bracket you're in and increase how much you pay in taxes.[24]

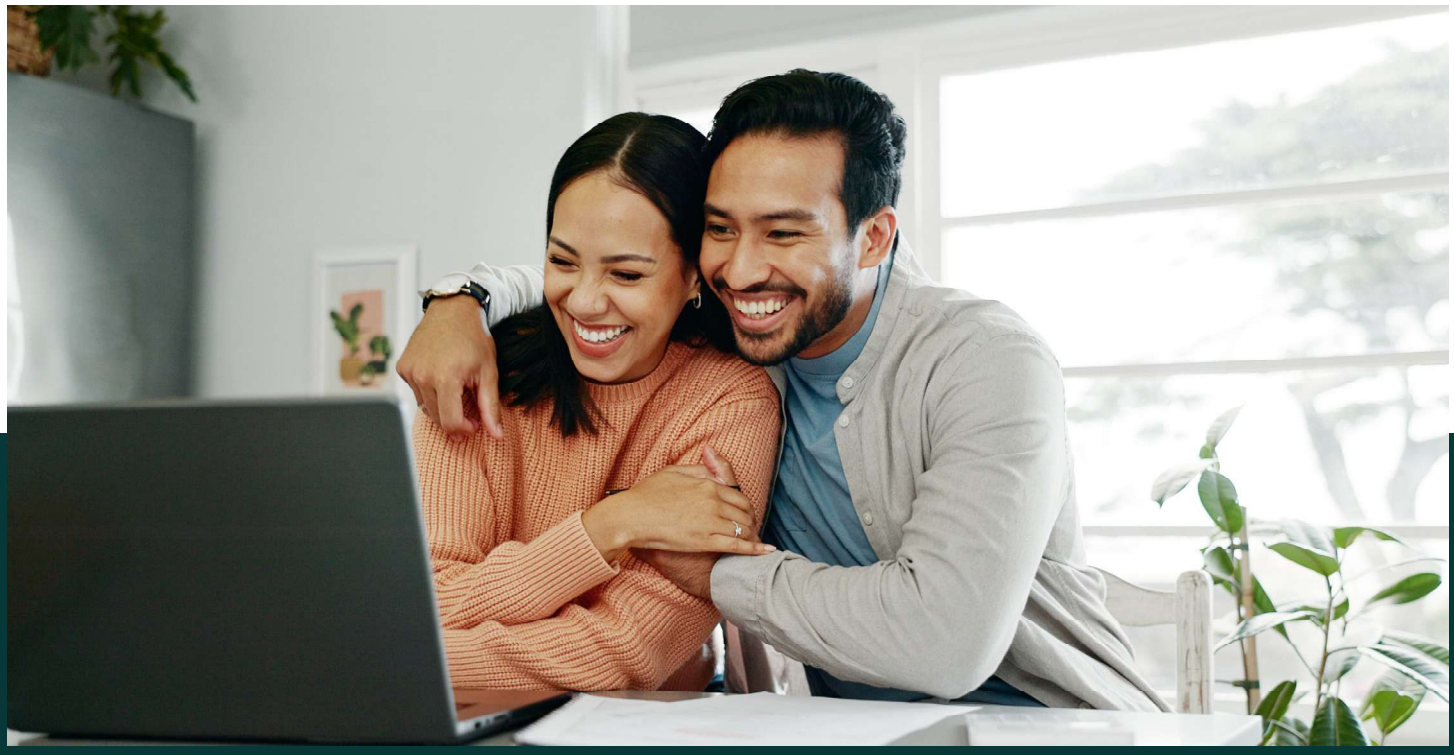
While no one likes to think of their spouse's death, being mindful and proactive in this reality can help you take steps to potentially save more of your retirement income.

CHANGES TO YOUR HOUSING

In retirement, changes to your housing situation could be a risk you need to address. One reason is to help manage the rising costs of homeownership. In the U.S., the average costs to maintain a single-family household is now $10,433.[25] Increasing house prices are also affecting retirees. According to an AARP study, 71% of people aged 65 years and older have been forced to consider moving due to rising rent and mortgages.[26]

Further, you may need to downsize a home to help control costs (like utilities and property taxes) or to address age-related health issues. Selling a home and moving can be an expensive process that could affect your retirement income.[27]

These factors could affect your retirement savings if you've not prepared to afford those expenses in retirement.



5 PRIORITY
REVISIT YOUR STRATEGIES

Financial lives are ever-changing. Details like inflation, career changes, family priorities, healthcare needs, and more can impact what a secure financial life means to you today — and in retirement. As a result, revisiting your financial strategies regularly could help you make sure that solutions you create are still effective once you retire. And of course, once you're in retirement, you'll want to check your financial plan regularly so it continues to evolve with you.

A good rule of thumb is to revisit your retirement plan least once a year.[28] Here are some financial items to revisit:

- **INSURANCE COVERAGE:** Your insurance needs can change once you retire. From life insurance to health insurance and more, you'll want to check whether you need to remove or add coverage. For example, as a retiree, you may no longer have dependents to account for, so your need for life insurance could change.[29] Getting rid of unnecessary insurance coverage could help you save more money in retirement.

- **LIFE GOALS:** Maybe your lifestyle has changed since getting closer to retirement. Perhaps, you're no longer traveling as much. Or maybe you no longer need a second or third car. Whatever shifts (or anticipated shifts) happen to your lifestyle, assess what your costs will be with your new goals and needs in mind. Then, adjust your strategies to support this lifestyle.

- **INCOME SOURCES:** Make sure that the income sources you planned to rely on are still relevant for your needs today and tomorrow.[30] Details like selling a second home could affect the rental income you planned to rely on in retirement. Or, maybe your spouse can no longer work and your joint-income is not the same as it was when you first created your plan. Paying attention to your changing needs in situations like these is important to avoid potential financial setbacks.

THE TAKEAWAY

Having enough money to last through your retirement is important for making sure you can live comfortably and pursue your desired lifestyle. While everyone's life is unique and each person has different priorities and goals for their future, you can take steps today to start safeguarding your retirement. Working with a financial advisor who pays careful attention to your specific needs can help you be proactive in your planning and thoughtful in your strategies.

At Grimard Marton Financial we are dedicated to helping our clients create financial strategies that work to protect their financial foundation so they don't outlive their money. We believe in the power that personalized financial planning can make for your unique financial life. Contact us today at (603) 261-3104 to plan for how to not run out of money in retirement. With a trusted partner advising and guiding you, you can address your short and long-term goals and build a strategic plan toward your retirement dreams.

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