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Marc A. Hebert's 'Money $ense': Risks to your retirement future

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MANAGING your finances can be a daunting task. It might become even more challenging during retirement. There are no steady paychecks, bonuses or merit raises to help pay the bills. There could be many years of retirement ahead and limited savings to pay for them.

Early retirement might mean more travel, while later retirement may mean staying home more but with increasing health issues to contend with. Each stage has its own financial risks. This article will take a look at some of them.

Investment risk: Risk and return are just two of the fundamentals of investing. The balance between risk and return takes on a different meaning as you age. Early retirement portfolio downturns can leave a smaller retirement portfolio to last many years. Smaller balances mean less available funds to grow when the market does pick up.

Downturns later on in retirement years can have a completely different result. To cope with this situation, you will need to prepare an investment mix that works for you over the long term and save more than you think you will need. Having an investment plan in place will increase the chances of your portfolio lasting for the long haul.

Longevity risk: Everyone looks forward to a long, happy life. By taking large portfolio withdrawals early on in retirement, there is less money available for later years and thus less money potentially earned in investment returns. As you make portfolio withdrawals, consider the long term. Without a budget, it is possible that you are spending more money in retirement than you did while working. Outliving your money is a real risk to consider. Creating a sustainable income stream from your assets is the objective.

Inflation risk: Retirement can go on for many years. Even a modest inflation rate will decrease the spending power of your money over time. Depending on your health and retirement age, you may need to plan on a retirement time horizon of 20 years or even longer.

Your portfolio will need to earn a rate of return that is higher than the inflation rate just to keep up with your spending. Given this, it is important to plan for a source of growth in your retirement portfolio. Growth is balanced against more conservative investments that generate income and decrease risk. Just like we said at first, balancing risk versus return is vital.

Health care risk: For many people, entering retirement is a time to revisit the budget. One line item that stands out is health-care costs. Proper planning for these is essential. Knowledge of Medicare, Medigap and long-term care insurance is vital to planning. If you are retiring before age 65, private insurance is an expense to be considered. Having insurance to meet your medical costs can protect your portfolio from health care expenses. Carefully review what Medicare and your insurance policies will cover and consider how to manage the gaps.

The unexpected: The last risk we want to mention is the risk of unexpected events. Perhaps this comes in the form of the sudden death of a family member or a lengthy illness. Perhaps it is a bankrupt pension plan. It could be the need for a new roof. Considering the unexpected can help you to be better prepared just in case something does happen.

Reviewing these and other challenges associated with retirement planning may increase your confidence that you have considered all scenarios and may help you prepare for any financial issues that come your way. It will also give you time to consider alternatives, such as part-time work or delaying retirement, to help ensure that your retirement is successful. With the future being so uncertain, it is best to plan accordingly.

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