Check these 7 retirement blind spots

Christine Benz
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Your investment portfolio, despite the market ups and downs of the past few months, looks tantalizingly large. Social Security will provide a surprisingly high percentage of your basic income needs.

Maybe retirement is more doable than you thought, sooner than you thought.

Those happy thoughts are likely cycling through the minds of many 50- and 60-somethings these days, thanks in large part to a bull market that has lasted the better part of six years. What seemed like a distant dream in the wake of the financial crisis—a financially comfortable retirement—is starting to look eminently possible.

But don't limit your retirement readiness check to an assessment of your account balances and your Social Security payments. Make sure that you're considering the whole gamut of financial-planning considerations in retirement—especially new expenses and costs that you might not have had to contend with when you were working—when determining whether you're really ready to hang it up.

What follows are some of the financial realities of retirement that have the potential to blindside new retirees who don't plan for them.

That you could encounter a down market early on in retirement: Retirement-portfolio balances are way up at the moment, but the past few months have provided a reminder that that can change in a hurry. And encountering a bum market, especially early in retirement, can change the math on the viability of retirement in short order. If your $1 million portfolio were to drop by 25% next year, your $40,000 annual withdrawal would jump from 4% to more than 5% in
the space of a year. That might not be catastrophic, but financial planners usually advise pre-retirees to build in some variability in their in-retirement spending programs so that they spend less in down markets, especially if those down markets happen early in their retirement years. I also like the idea of "bucketing"--holding enough cash and bonds to ensure that you're never going to have to sell stocks to meet living expenses when they're in a trough.

**That your health-care costs may well go up:** Some retirees incorrectly assume that turning 65 and being Medicare-eligible means that health-care costs automatically go away. But Medicare covered roughly 60% of the health-care expenditures for retirees, according to a 2012 report from the Employee Benefit Research Institute. Factoring in supplemental insurance premiums and out-of-pocket expenditures, among other health-care outlays, Fidelity Investments recently estimated that the typical 65-year-old couple will need $220,000 to cover health-care expenses during their retirement years. Importantly, that figure does not include long-term-care expenditures. Of course, retirees' health-care expenses vary widely and may change over time; some retirees may be covered by an employer-provided plan. That's a shrinking share of workers, though: A Kaiser Family Foundation report noted that 25% of firms with more than 200 employees offered retiree health-care benefits in 2014, down from 38% in 2004. This video does a deep dive into the topic of retiree health-care expenses.

**That inflation will take a bite out of your withdrawals:** Gas prices provide a regular, visible gauge of whether costs are going up or down. But most price changes are far more subtle and easy to ignore: The pasta box that was 16 ounces shrinks to 14, or the cable bill (don't get me started on the cable bill!) jumps by $20. Over time, those minor cost increases, both direct and indirect, mean that you'll need to spend more to maintain a steady standard of living. That's why it's so important to make sure that you're factoring in the role of inflation when assessing the viability of your plan--an amount that you can live on
today may not be enough to get by on in 10 years. Spending guidelines like the 4% "rule" factor in the role of inflation by assuming the retiree spends 4% of her portfolio balance in year one of retirement and then gives herself a small raise annually to account for inflation; this article discusses how to properly inflation-adjust your withdrawals. It's also valuable to make sure that your portfolio has a fighting shot at out-earning inflation via direct inflation hedges like Treasury Inflation-Protected Securities as well as indirect hedges such as stocks.

That you'll owe taxes on your withdrawals from tax-deferred accounts: Balances for IRAs and 401(k)s are a bit of an optical illusion, in that they look fatter than they actually are. While you enjoyed pretax contributions and tax-deferred compounding while you were accumulating money there, you'll owe ordinary income tax on each and every one of your withdrawals. That underscores the importance of making sure that you factor in the bite of taxes when crafting your retirement-spending plan, as well as the merits of tax diversification--making sure you come into retirement with accounts that will enjoy varying tax treatment, including Roth and taxable assets.

That you'll be responsible for managing your own tax outlays: Self-employed individuals well know the importance of setting aside enough from each payday to cover taxes. But for retirees who spent most of their lives receiving a paycheck that took taxes out automatically, covering their state and federal tax bills on their own may take some getting used to. Retirees can manage their ongoing tax obligations by withholding a percentage of their retirement-portfolio withdrawals at the time they take them, by paying estimated taxes, or both. A tax advisor can help you make sure that your ongoing tax outlays during retirement aren't so low that you'll incur a penalty, and aren't so high that you're giving the government an interest-free loan.

That you'll be on the hook for required minimum distributions: Wealthy retirees may find themselves in the enviable position of not needing their IRAs;
they can draw their income from other sources and continue to take advantage of tax-sheltered compounding that the IRA wrapper affords. That's a fine strategy if the IRA assets are Roth, and it's even a workable approach with traditional IRA assets in the early retirement years. But required minimum distributions begin in the year in which you turn age 70 1/2, and if the IRA is a large one, your tax bill may well go up right along with those distributions. Here again, tax diversification can come in handy, as withdrawals from Roth and some taxable assets may help retirees offset the tax bills from their RMDs. Retirees should also bear in mind that the RMD doesn't mean those assets must be spent; you can reinvest them in your taxable account or even in a Roth IRA if you don't need the money.

**That you might not be able to continue to work:** Continuing to work at least part time is a fact of life for many of today's "retirees"; they may do so by choice or because it's the only way to make the numbers add up for their retirement. But while there are certainly several important financial advantages associated with working longer--delayed receipt of Social Security benefits and delayed portfolio withdrawals are two of the biggies--working longer may not be tenable for everyone. While a third of the workers in a 2014 Employee Benefits Research Institute survey said they planned to work past age 65, just 16% of retirees said they had retired post-age 65. And a much larger contingent of retirees--32%--retired between the ages of 60 and 64, even though just 18% of workers said they plan to retire that early. The disconnect owed to health considerations (the worker's, his or her spouse's, or parents'), unemployment, or untenable physical demands of the job, among other factors.