SMART INSIGHTS FROM FINANCIAL PROFESSIONALS

Four Unseen Icebergs That Could Sink Your Retirement Plan

Don't be like the captain of the 'Titanic' and ignore warnings to be prepared for risks that lie ahead when planning for your retirement.

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You're probably familiar with the tragedy of the RMS Titanic.

The ocean liner, touted as "unsinkable," hit an iceberg and sank just four days into its maiden voyage in 1912. Of the about 2,200 people on board, more than 1,500 perished.

You may also be aware that it wasn't just one thing that caused the Titanic's demise. The captain, though warned of the potential danger ahead, chose not to change course. The ship's state-of-the-art design was flawed, which likely contributed to its sinking. And when the Titanic did go down, there were only enough lifeboats to accommodate about half of the ship's passengers and crew.

Without a realistic assessment of the potential risks ahead or proper preparation for the worst-case scenario, the White Star Line's "wonder ship" was doomed to fail.

The same can be said, unfortunately, about many of the modern-day retirement plans that I see. People are often unprepared for what lies ahead and ignore warnings to take a safer course. Many have never had their portfolio stress-tested to see how it might work if their circumstances change or what might happen if there's an economic calamity.

Here are just a few of the "financial icebergs" lurking out there that could sink your retirement plan:

1. STOCK MARKET VOLATILITY

When you're in the accumulation phase of your financial life (your 20s to early 50s), the stock market can be a wonderful way to build the wealth you'll need to fund your retirement. But as you get older — and especially if you're within five years of retiring or already retired — protecting your nest egg should be your top priority.

It can be tempting to stick with a riskier portfolio mix when the market is doing well. But the stock market is a lot like an iceberg, in that you can't really see what's going on beneath the surface. Once you're near or in retirement, it's generally a good idea to move a larger portion of your portfolio to more stable, lower-risk investments that can potentially generate income.

A **diversified portfolio**[1] can help keep you afloat if equities take a downward turn.

2. TAXES

Big changes are on the horizon when it comes to tax rates. The **Tax Cuts and Jobs Act**[2] of 2017, which raised the **standard deduction**[3] and lowered tax rates for many Americans, is set to expire at the end of 2025. This means the taxes you pay going forward could be much more than you planned, especially if you're pulling income from a tax-deferred retirement plan like a **401(k)**[4] or traditional **IRA**[5].

Withdrawing funds from these retirement plans could also trigger a tax on a portion of your **Social Security**[6] income. And if you're a **Medicare**[7] beneficiary with income over a set threshold, you may have an extra monthly fee tacked onto your Medicare premiums.

Several strategies can potentially lower your tax burden in retirement, including converting some of the money in a taxable account to a **Roth IRA**[8]. But these strategies may take time to implement, so proactive planning is key.

3. LONG-TERM CARE COSTS

Long-term care costs can quickly devastate a retiree's hard-earned nest egg. According to the **Genworth Cost of Care Survey**[9], the average annual cost of home health care in 2021 was \$61,776; care in an assisted living facility was \$54,000; and a semi-private room in a nursing home was \$94,900. Genworth projects that the average costs by 2041 could be \$111,574 for home health care, \$97,530 for assisted living, and about \$171,400 for a semi-private room in a nursing home, based on 3% inflation.

Do your retirement income projections account for this potential expense? According to data from the **Administration on Aging and the Administration for Community Living**[10], someone turning 65 today has an almost 70% chance of needing some type of **long-term care**[11] services as they age. Now is the time to start looking at **long-term care insurance**[12] policies and other options that could help cover this expense.

4. LONGEVITY

Retirees often say their top concern is **running out of money**[13] — and those fears are not unfounded. These days, retirement can last two or three decades or even more. That's a long time to make your nest egg last, which means even in retirement, you may want to hold on to some growth-oriented investments that can help you keep pace with **inflation**[14].

You can also give your guaranteed income sources a boost by making smart decisions when claiming your Social Security and pension benefits.

A wise man once told me the four pillars of a successful **financial plan**[15] are income, income, income and income.

In other words, as long as you have sufficient cash for today and tomorrow — and enough to cover unexpected expenses — you'll have a better chance of successfully navigating your way through retirement.

But it can take careful planning to get there. If you need assistance, ask. A financial adviser who is an independent **fiduciary**[16] can analyze your current holdings, identify long-term solutions and work with you to help avoid the risks that could capsize your comfortable retirement.

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