When you think about retirement, you may picture yourself enjoying hobbies, doing volunteer work or launching a second career. By planning for the next chapter of your life, your wishes can become a reality. Whatever your goals and wherever you are in the process, there are tools and services that can help you meet those goals and retire on your own terms. Take the first step toward meeting your retirement goals by recognizing the challenges that may impact your retirement. There are six key financial risks that you should be aware of and discuss with a PennWood Financial advisor when creating or updating your personal retirement plan.

Longevity: The longer you live, the greater the chances are that you will outlive your retirement assets. Advances in medicine and technology are allowing people to live longer, extend their retirement, and possibly place a bigger strain on savings. Factoring in a retirement timeline of 20 or 30 years, or longer, is an important component of many retirement plans.

Inflation: Inflation does not stop when you retire, even as your resources and income become more limited. Even low inflation reduces purchasing power over time, because as prices rise, a dollar buys less. At a minimum, retirement income needs to keep pace with inflation to help maintain your standard of living. Over the past thirty years (1985-2015), inflation has averaged 2.7% per year. For the average retiree your income needs could double in retirement.

Health Care Costs: According to the Employee Benefit Research Institute, retirees will need a substantial amount of savings to cover their health care expenses in retirement. Uncertainty related to these costs and the impact of longevity will continue to play a major role in planning for health care in retirement.

Stock Market Performance: No one can control or predict the performance of the stock market. That’s why good investment balance is important. An overly aggressive portfolio may lead to investment losses and an overly conservative portfolio may not keep pace with inflation. Diversification helps balance risk, so allocation of assets is important for all investors but it is especially important for retirees.

Excessive Withdrawals: Drawing down assets too quickly, regardless of how well a portfolio is balanced, puts an individual at risk for running out of money. In theory, 4% may be a sustainable rate of withdrawal each year to cover essential expenses. In practice, that number could be higher or lower depending on an individual’s age, health and other factors.

Every retirement plan needs to provide growth, liquidity, and predictability of income. Managing your income and assets to effectively address these three components is essential to retiring with confidence. By investing and separating your assets this way, you may be better able to accomplish multiple goals with different assets and to diversify risk.

MAXIMIZE YOUR SOCIAL SECURITY BENEFITS
Social Security if one of the few sources of retirement income that is predictable, periodically adjusted for inflation and guaranteed to last for as long as you live. Thus, how and when you start your Social Security income is one of the most important decisions you will make. When that time comes, don’t base your decision on “one-size-fits-all” assumptions or what your friends and family have done. Your situation — age, marital status, health and financial needs — are unique to you, and you will have many options to consider. Allow one of our PennWood Financial Group advisors to provide you with an analysis of your social security payout alternatives and options.

CREATE SOURCES OF PREDICTABLE INCOME
In addition to Social Security, one of our financial advisors can help you understand how best to leverage other sources of predictable income. This can include your pension, fixed annuities, income annuities, bonds or other investments.
PERSONAL PLANNING

Part of your retirement plan must include instructions as how to manage your resources in the event of your incapacitation or death. Working with an attorney, you should draw up documents with these instructions, including:

- The bequest of assets to heirs and the settlement of estate taxes
- Creating a will and naming an executor of the estate to oversee the terms of the will
- Establishing guardianship for any living dependents
- Setting up a durable power of attorney (POA) to direct the oversight of your affairs if you become incapacitated
- Ensuring that the designated beneficiaries on contractual plans such as life insurance, annuities, IRAs and 401(k)s are current and in accord with your other estate planning instructions

Another component of personal planning is financial planning; which by definition is a comprehensive evaluation of a client’s current and future financial state by utilizing currently known variables to predict future cash flows, asset values and withdrawal plans. When it comes to financial planning most people’s goals and objectives tend to revolve around six key areas; Financial Position, Managing Risks, Accumulating Wealth, Tax Management, Retirement Planning, and Wealth Preservation. By working with a PennWood Financial Group advisor you can ensure that any key areas of concern are addressed appropriately.

LIFE INSURANCE

Many people think that their need for life insurance ends when they stop working. However, life insurance can be a valuable financial asset that can help you enjoy a more secure and comfortable retirement, and leave more to the people you care about. Many couples entering retirement today are concerned that they will outlive their retirement savings, or not be able to leave a financial legacy for their children and grandchildren. Although there are different types of life insurance, whole life insurance, with its guarantees, may help you address these concerns by providing additional financial security for you and your family during retirement. Whole life provides two important benefits:

1. Life insurance protection: The policy’s death benefit is generally paid income and inheritance tax free, and can be an important additional financial resource for a surviving spouse. In addition, the policy’s proceeds may also help ensure a financial legacy for children and grandchildren.

2. Cash value accumulation: The cash value that the policy builds over time can be accessed on a tax-advantaged basis, and offers a potential source of cash for emergencies or supplemental retirement income.2

In addition, many life insurance plans provide living benefits such as long-term care expenses or premium protection in the event that you become disabled.

1 Source: Bureau of Labor Statistics (December 2015)
2 Distributions under the policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (cost basis). If the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty if the policy owner is under age 59 ½. Access to cash values through borrowing or partial surrenders will reduce the policy’s cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

“DARE TO LIVE THE LIFE YOU HAVE DREAMED FOR YOURSELF. GO FORWARD AND MAKE YOUR DREAMS COME TRUE.”

RALPH WALDO EMERSON

A member of the MassMutual Financial Group