5 Retirement Challenges Investors Don't Understand

What if I told you had your eye on the *wrong* ball? That your ladder of success was leaning against the *wrong* building? Or that you are focused on the unimportant, while the important stuff stands neglected? You might be indignant or annoyed. But my hope is that you are perplexed and curious enough to keep reading.

While attending a master class taught by famous speaker and author Brian Tracy, I was reminded that the very worst use of time is to do something very well what need not to be done at all. You might be the best in town at taking a coffee break; so what?

On a daily basis I see investors young and old checking the Dow Jones Averages, the S&P500 Index, trading in and out of stocks like they are wagering in a Las Vegas casino. What I don't see much of is the realization and subsequent planning for the 5 retirement challenges that will destroy most investor's hope of a financially secure retirement. Of this, they are totally clueless. Brian Tracy would agree that you might be a "master at checking the market", but of what use is that skill when inflation robs you of your ability to purchase needed goods and services well into a hopefully long retirement?

You see, <u>inflation i</u>s but one of the 5 most dangerous challenges you and your spouse will face as you step ever closer to retirement, to the day when you cash your last paycheck. A 3% annual inflation rate does not seem all that high until you compound it. Consider this, if you need $50,000 of retirement income today you will need $65,200 in 10 years. That's the power of compounding. Worse yet, in 20 years, you would need $87,700 to match your purchasing power of today. Tell me how checking the S&P500 daily will help you deal with this challenge. And, what is *your* strategy to deal with this?

The other 4 challenges are no less scary. Consider <u>healthcare expenses</u>. Have you checked your health insurance premiums lately? Think 10, 15 or 20 years down the road will they be lower? I talk to families that pay $1,900 and more per month in healthcare premiums. That's higher than the monthly mortgage on my first townhouse. Healthcare experts agree that the costs of healthcare will continue to rise! If your retirement accumulation strategy does not account for significant increases in the cost of healthcare, you are putting yourself at risk.

<u>Longevity</u> is a fancy term for how long you will live, and by extension, how long your money needs to last. The risk very simply, is that you will outlast your money; at that point you will be living in your kids basement, if you are lucky! Nick Murray brilliantly states the issue this way; " From a financial standpoint, retirement really has only two possible outcomes. One is that the money – or at least the income – outlives the people. And the other is that the people outlive their money." You would much rather be in a position where your money outlasts you, and you have the ability to pass on wealth to your kids, grandkids, charities or institutions you care deeply about. We all will experience one of these outcomes, and now that I have raised your awareness of this issue, hopefully you will begin asking the right questions. Sorry, but checking the Dow Jones Averages will not help you with this challenge.

How much you withdraw from your investment and retirement accounts during retirement is often termed your withdrawal rate. Withdraw too much and you risk running out of money while you are still living. Withdraw too little, and you don't have enough cash to pay for all the things that might make retirement enjoyable. Many retirees' withdraw large amounts of funds early in their retirement. Whether it is providing funds for kids to purchase homes they otherwise could not afford, updating kitchens with granite countertops, buying expensive cars or paying off college loans to make life easier for the kids, the list is endless. The result is often the same; assets that were meant to provide income later in life are no longer available.

The last of these 5 challenges is often referred to as asset allocation; or how your investment and retirement portfolios are diversified among different types of assets. Hold too much in any one type of asset and you risk exposing yourself to increased risk and price volatility. There are risks in stocks, junk bonds, long term U.S. Treasuries, residential real estate and gold just to name a few. As the saying goes, even good investments act poorly some of the time.

In his book *The Little Book That Still Saves Your Assets; What the Rich do to Stay Wealthy in Up and Down Markets*, David Darst, former chief Investment strategist at Morgan Stanly Wealth Management said this about asset allocation: "We want to be able to mix and match assets that do not act like each other. Real estate, whether real property, or real estate investment trusts, behaves differently from assets such as fixed income. Gold tends to differ in behavior from stocks. It is critical to mix and match your assets in order to smooth your overall portfolio returns".

So, the next time you find yourself thinking of the next Federal Reserve meeting, the market and whether the S&P500 will go up, you might want to re-read this article and place your attention and your focus where it belongs; on these 5 challenges that can wreck your future retirement and what you are going to do to effectively plan for them.

Rodger Alan Friedman has over three decades of experience designing and managing retirement portfolios and advising clients on retirement matters. For additional information and a free special report on preparing for retirement, please call 1-844-3-MY-PLAN or visit my website: RodgeronRetirement.com

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