

PREPARING FOR LIFETIME INCOME IN RETIREMENT

There was a time when old retirement planning models like “the 70 percent rule” were more common. This rule stated that a retiree only needed 70% of their pre-retirement income to live comfortably in retirement. These “rules” may have worked for some retirees several decades ago but can be dangerously flawed in today’s new normal retirement.

The reality is that the cost of retirement has increased significantly, to the point where some retirees may need to save above their pre-retirement income and make it last for up to 30 years. Planning for lifetime income in today’s environment generally focuses more on today’s realities instead of outdated formulas and methods.

The Biggest Retirement Risk

It’s believed that the biggest risk retirees today face is their longevity. This is based on your life expectancy and continues to expand each day. For example, an average, healthy 65-year-old has a life expectancy of 18.5 years¹. This risk may be further compounded if you try to use a standard life expectancy table to calculate your retirement needs, because standardized information assumes that everything in your life will happen on time. But what if it doesn’t?

Preparing for Lifetime Income Sufficiently

While some retirees are approaching retirement with trepidation, extended longevity should be greeted with gratitude. The possibility of a longer life means more time with loved ones, time to see the world, or even time to learn new skills. To work towards outliving your retirement income, you’ll need careful and deliberate preparation. Here are some ideas to help you start:

- **Clearly Define Your Retirement Needs** // With retirement becoming more expensive, it’s considered vital to have a clear and well-defined vision of your ideal retirement. When you have a strong vision, it’s easier to translate into specific goals that consider your income needs and timeline. This vision is likely going to change over time, so review your plan frequently so you can make adjustments when needed.
- **Know Your Retirement Costs** // Regardless of your ideal retirement lifestyle, there’s a cost. If you’re concerned about outliving your income, try taking a more deliberate approach to calculating your costs. Consider creating a budget today that reflects your vision and factor in the estimated cost of living increases that may happen over your lifetime. Don’t forget to account for the likelihood of increased healthcare costs or potential long-term care costs.
- **Determine Your Risk Capacity** // Depending on your goals and time to retirement, you may want to consider changing your investing strategy. While investing more conservatively can feel more secure, there are other risks like inflation or outliving your income. With the possibility of 30 years or more of retirement, you may want to consider investing for growth to help you maintain purchasing power. Consider talking to a financial professional who can offer personalized guidance that’s suited to your goals, lifestyle, timeline, and risk capacity.
- **Consider Downsizing Your Lifestyle** // Whether out of necessity or a desire to live a simpler lifestyle, many people downsize their vision of retirement. For some, this means a smaller home, fewer or less expensive cars, and adopting a frugal lifestyle.

Today’s retirement plans should aim to be grounded in today’s realities. Your retirement vision, formed by your needs, wants, and beliefs, should be the most important benchmark when determining how much you need to save. Having a realistic plan, a strategy, and a disciplined approach is considered important to pursuing retirement success. If you need help developing your retirement strategy, talk to a financial professional.

¹ Murphy SL, Kochanek KD, Xu JQ, Arias E. Mortality in the United States, 2020. NCHS Data Brief, no 427. Hyattsville, MD: National Center for Health Statistics. 2021. <https://www.cdc.gov/nchs/products/databriefs/db427.htm>

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