HOW TO MAKE YOUR MONEY LAST A LIFETIME

By: John Ludlow, CFP®, Vice President, Senior Financial Planner

Several recent retirement surveys found that with today's rapid healthcare advancements, elderly individuals have the potential to live much longer than generations from any other time period in our country's history. This increased longevity indicates that your retirement years could span 30 years or longer — which means some individuals might spend even more time in retirement than years they spent in the workforce.

With this research as a backdrop, it's not hard to understand why the Americans surveyed in one 2020 retirement risk readiness study admitted to not only having concerns about their ability to manage their finances but also worrying about outliving their assets as they grow older.[1]

Kelly LaVigne, vice president of Consumer Insights for Allianz Life, suggests that as Americans age, they should plan as much as possible for any surprise expenses. She believes it's crucial that Americans start to make the connection between aging and inflation risks so they are better protected for the future.[1]

With that advice in mind, here are four considerations for providing a steady flow of income in retirement and avoiding depletion of your assets prematurely.

CONNECTING THE DOTS BETWEEN AGING AND INFLATION RISK

As Americans grow older and transition from the workforce to a longer retirement, rising costs from inflation put pressure on their financial decision making and planning.

According to the 2020 Retirement Risk and Readiness Study from Allianz Life Insurance Company of North America, 57% of Americans are worried inflation will make their basic retirement expenses unaffordable. Additionally, 59% of Americans believe they won't be able to enjoy their retirement because of the rising cost of living.[1]

1) BUILD IN THE INFLATION FACTOR

As you develop your retirement income plan, don't underestimate or forget the importance of planning for inflation. Remember, what costs a dollar today will cost a little more than that dollar in the next couple of years – and perhaps a lot more than a dollar in a couple of decades.

As prices increase over time, it's very important your financial plan accounts for the inevitable rise in cost of your living expenses over many retirement years.

2) MAXIMIZE YOUR INCOME STREAM

Also, keep in mind increases in your Social Security payments – and even most private pension and all fixed annuity payments – will not keep up with the actual rise in prices over time. Social Security inflation increases rarely match up with real inflation numbers, and most private pensions don't have an increase in monthly payments once you start receiving the income.

As such, it's worth a conversation with your advisor for guidance on implementing ways to maximize your income, investments, and savings to accommodate rising inflation during retirement.

3) GROW YOUR INVESTMENTS

Traditionally, the best way for an investment plan to keep up with inflation is by directing some of your investments and income to rely on and grow with moves in the stock market. Of course, the obvious question is, "How much?"

The answer to this question varies based on several factors: 1) the types of accounts and income you have built into your financial plan, and 2) your investing preferences and your personal ability to tolerate at least a portion of your retirement plan fluctuating up, and down, with the stock market.

However, your financial advisor can help you determine the appropriate amount of stock market exposure that will help you better prepare for increased living expenses over a retirement span that could last for decades.

4) USE THE STOCK MARKET

That said, there are several different ways you can use the stock market in your financial plan. The first method is what we traditionally refer to when we think of stock market investing. You direct some of your investment account to investments in the stock market, and hopefully over time these investments will grow as the stock market increases in value.

Another, less common, method involves directing a portion of your savings to an investment vehicle designed to increase payments to you as the stock market grows. This method may involve investments such as annuities with a payment or withdrawal schedule that can increase the income distributed as the stock market increases. However, annuities can be tricky – some will even decrease your income if the stock market drops. It's important to always work with your advisor and discuss the best method to use when investing in assets subject to market risk.

OTHER WAYS TO DEAL WITH RISING INFLATION

- Work in retirement: Finding an enjoyable job with flexible hours is a great way to share your skills and passions, interact with other people, and generate a little bit of income to take the pressure off your own savings.
- Relocate. Moving to another state or country with lower taxes and cost of living is another popular option. If you don't want to sell your current home, consider renting out your property to generate additional income.
- Decrease your spending: Look at your monthly expenses and decide where you can make changes in your spending habits. Reducing personal spending is like giving yourself a tax-free raise.

NEXT STEPS

Everyone's financial situation is different. That's why it's important to meet with your advisor to determine the best retirement options for your unique lifestyle. Contact us today — we will listen to your concerns, offer tailored solutions for dealing with rising inflation, and help you structure your assets to last through your retirement years.

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[1] Source: Allianz Life Insurance Company of North America, 2020 newsroom press release, "As Americans Age, Longer Retirements and Rising Costs Put Pressure on Financial Decision Making," https://www.allianzlife.com/about/newsroom/2020-press-releases/longer-retirements-and-rising-costs-put-pressure-on-financial-decision-making, accessed February 27, 2021

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John is a financial planner for Commerce Trust Company. He is a member of the financial advisory services team, a dedicated financial planning practice within Commerce Trust that provides objective financial advice to clients. Following a thorough assessment of a client's unique situation and thoughts regarding wealth, John develops holistic and coordinated plans to help clients meet their short-term and long-term goals as well as take full advantage of various planning, tax and investment strategies along the way. John has nearly 25 years in the financial planning industry, working with both individual and institutional clients. John received both his bachelor of science in business management and master of business administration degrees from Brigham Young University. He has also earned his CERTIFIED FINANCIAL PLANNER™ designation.