Incise Insight

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The Five Necessary Tasks of Any Retirement Plan

There are five tasks any retirement plan must consider or it really is not a plan. Those tasks are: (1) Provide an income for the life of the retiree, (2) Provide an income for life of anyone who is dependent on the retiree, (3) Provide an emergency fund, (4) Pay for financial shocks and (5) Pass on an inheritance, if so desired.

Efficiencies can be improved by addressing these separate tasks in a coordinated manner.

For instance, choosing a joint lifetime income from a pension can solve both task (1) and (2), but it usually means a reduction in income while both are alive. With other sources of income and adequate life insurance proceeds, after the death of the retiree, it is possible both could enjoy more income before the retiree passes away by electing to take a single lifetime income. Of course, other ramifications are involved.

Social security income will be higher while both persons are alive (1) but will be reduced at first death impacting task number (2). Delaying the benefits of the higher wage earner will increase the social security payment later, while both are alive (1), but it will also increase the survivor's benefit (2). A careful analysis of survivor benefits is often overlooked when a couple is making retirement decisions without proper coaching. Once again, an analysis of income after the first death needs to be studied.

When an "investment-only" approach is taken, the portfolio must produce enough benefit to address tasks (1),(2),(3) and (5). It is not efficient at doing all these things. With this approach the investments are not available for emergencies, as they must produce income.

The two primary financial shocks (4) are having to pay for assistance with daily living and assisting children with finanical difficulties. Both of these could be considered unexpected and ongoing expenses. With an investment-only approach, the only way to transfer the risk of a long-term care shock is to purchase long-term care insurance.

The cost of insuring against the expense of long term care has continued to escalate since the advent of the insurance product in the 1980's. This is for two reasons. First, the cost of care has gone up and secondly, companies underpriced the product due to lack of history in pricing. For this reason there has been a shift to insuring the risk through products where the consumer shares in the cost through ***asset-based*** products. These are generally annuity or life insurance based and may help to reduce the overall cost of insuring against the risk. They also add the benfit of "if you don't use it, you don't lose it".

The only way to compensate for longevity risk and the risk of market volatility is for the retiree to spend less. Either volatility has to be reduced or volatility buffers must be available. Volatility buffers are generally available through home equity or cash value of life insurance.

The last task of any retirement plan is consideration for leaving assets to the next generation (5). This can be to family or charitable causes. My experience has taught me that if one leverages the fact that they are "going-to-die" in their planning, they can work backwards and leverage this known fact to their benefit in addessing tasks (1), (2), (3) and (4). How? By creating assets after the death of a retiree through life insurance proceeds (2) or leveraging the life insurance to assist with paying for the cost of daily care (4). Details as to how to do that are dependent on the situation and also go beyond the scope of this newsletter. Life insurance can be used as a permision slip for a retiree to enjoy their assets for lifestyle (1) & (2) and pass on an inheritance (5). The key is to ask the question: Can this known event be leveraged to improve my retirement?

Business: One of the ***asset based*** care products just mentioned works well in a business setting. Plans can be put in place for specific individuals and designed to be completely paid for by retirement, thereby solving the issue of the cost of long term care in retirement (4).

Fact: J.C. Penney plans to permanantly close 242 of its 846 stores under bankrupcy protection.

Mark the **NEW** date:

Come learn, enjoy good wine, good food, good music and good company!

Where: Blue Mountain Vineyards
4480 Hoot Owl Drive, Berthoud

When: Thursday evening
August 25h at 6:00 p.m.

Heavy Hors D 'Oeuvres will be served.

Please RSVP by Thursday, August 20th.
Call: (970) 593-0619 or
e-mail: info@LongsPeakEducation.net
on-line: https://august25.eventbrite.com

This is a no-pressure educational and social event.
There will be no particularized offers, solicitations
or recommendations for professional services.

- Independent professionals Maria, Thomas and Dan will speak briefly on the topics of risk management, estate planning and financial education.
- Wine-Tasting & Food-Pairing Presentation
- Entertainment by Concert Pianist Maria Kurchevskaya

Come relax for an evening!
The atmosphere will be casual.

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Incise Insight Newsletter

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