

Offices in
Elizabeth City, Portsmouth,
and Virginia Beach
Tel: 757-399-7506
Tel: 252-722-2890
Fax: 757-397-1267
Web: www.oasthook.com



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Editor
Sandra L. Smith,
Certified Elder Law Attorney

NAVIGATING THE TOP FIVE RETIREMENT RISKS BY ADAM STEINER, CFP®

Longer lives and better health translate into longer retirements and new concepts of what retirement should be. Many of today's retirees view retirement as a time to shift gears but not necessarily to slow down.

These retirees keep their skills sharp in new jobs or by starting businesses. They continue learning new skills by returning to school as both teachers and students. Some choose to serve on boards of directors or to pursue creative and artistic passions.

However you define your retirement, the bottom line is that you want to live your life without constantly worrying that you will run out of money. It certainly pays to be prepared and to stay on plan.

What to Look For

A successful retirement plan begins, of course, with making smart savings and investing decisions long before you retire. But of equal or even greater importance is how you manage your money after you have left your primary career and your have turned to your investments to provide the income that supports your lifestyle.

To boost the chances that your savings will let you live comfortably in retirement, there are five primary areas of risk that you need to address:

- *Timing and Withdrawals:* The amount you withdraw from your retirement portfolio and when you do so are two of the main determinants of how long your portfolio will last. For example, taking large withdrawals during bear markets such as those in 1973 to 1974 or 2000 to 2002 makes it hard for a portfolio to recover and grow.

To the degree possible, you want to minimize drawing on your capital in a weak market since you will have less capital for the rebound. Your annual withdrawal rate should be smaller than your average annual return less inflation. Of course, to be conservative, you could bring it down even further, and your assets may continue to grow positively even though you are making withdrawals.

- *Market Volatility*: Related to the first risk, you need to position your portfolio to withstand inevitable swings in the market, and the way to do this is through diversification and asset allocation – holding a combination of stocks, bonds, cash and alternative investments that matches your risk profile. Returns on these investments should be noncorrelated, so that when one area is down, another area is up. In retirement, you need diversification to perform a balancing act of having enough growth-oriented investments to help achieve acceptable long-term returns and bonds and other fixed income securities to provide steady income. Annuities could also make sense to provide at least a portion of your retirement income.
- *Longevity*: The good news is that you have a good chance of living to a ripe old age, but the risk here is essentially that you could outlive your assets. For a married couple who both reach age 65, there is more than a 60% chance that one of them will live to age 90 (Source: Ibbotson Associates, 2006). That means that if you retire at 65, you may need to plan for 25 years or more in retirement.
- *Taxes and Inflation*: Don't underestimate the ability of inflation to destroy spending power. Over the past 25 years, during which inflation has been fairly tame, the Consumer Price Index (CPI) – the cost of a basket of goods and services determined by the Bureau of Labor Statistics – has more than doubled. If inflation accelerates to 6%, prices would double in about 12 years.
- *Health Care Costs*: The CPI is often not the most accurate measure of your personal inflation rate, since you may spend disproportionately on health care as you age. These costs have traditionally run at double or triple the overall rate of inflation and are not under control. In addition, consider long-term care insurance as a way to help pay for some of the potential nursing home costs as you get older.

Writing the Next Chapter

Thanks to a combination of advances in medical technology and better lifestyle choices, Americans are living longer and more active lives. Nonagenarians (people between the ages of 90 and 100) are becoming commonplace, and all you have to do is watch Willard Scott on the Today Show to see that there's no shortage of seniors surpassing the century mark. Enjoy your retirement years, however you decide to spend them. Spending some time with your financial advisor today can help you enjoy true financial security tomorrow.

The attorneys at Oast & Hook can assist clients with their estate, financial, insurance, long-term care, veterans' benefits and special needs planning.

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Announcements

Oast & Hook attorney Sandra Smith will participate in a panel discussion entitled "Senior Services 101" at 9:30 a.m., Saturday, July 11th at Commonwealth Assisted Living at Hampton, 1030 Topping Lane, Hampton, Virginia. The panel will consist of speakers from Oast & Hook, ElderLife Financial Services, Senior Services of Southeastern Virginia, Solutions Home Care, Tidewater Mortgage Services, and the Alzheimer's Association. This presentation is free and open to the public. For more information or to register, please phone 757-431-8825.

Oast & Hook is co-sponsoring a presentation with Seniorcorp entitled "Life Care Planning and Veterans Benefits." This informational seminar will cover veterans benefits, asset protection, retirement living, and home health care services. There will be two sessions. The first one is at 2:00 p.m., Wednesday, July 29th at the Williamsburg Library, 515 Scotland Street, Williamsburg, Virginia, and the second session is at 6:00 p.m., Wednesday, July 29th at the Brittingham-Midtown Community Center, 570 McLawhorne Drive, Newport News, Virginia. These presentations are free and open to the public. For more information or to register, please phone Jennifer Lantz at 757-39-7506.

Distribution of This Newsletter

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