Episode #236: Will Your Retirement Income Take a H.I.T.?

Video Transcription

Hello, everybody. And welcome to another episode of "Money Script Monday." My name is Michael Clemente, and first of all, I want to thank you for attending today's episode. And today, we're going to ask a question, will your retirement income take a hit?

And when I say hit, I mean H-I-T. Now, when we're talking about retirement, we really relate it to climbing a mountain. Let's call it Mount Everest. A majority of people may not know this, but when they make it up the mountain, they don't have enough resources or a plan to make it down the mountain.

So that's a lot of you right now. A lot of people who are in their 30s, and 40s, approaching their mid-50s, we call that the accumulation phase or the ascension.

You may be working with an investment advisor, putting money in the market, putting money in your 401(k) or IRA, and you're accumulating your assets. You're accumulating this big bucket of money that hopefully when you reach that peak, you're going to have enough resources or enough assets to get you down the mountain.

We call that ascension going down the mountain to your life expectancy.

Well, when you're approaching that 50 to 55 range, your mindset may start thinking, I have this accumulation plan. I've accumulated enough resources to get me up the mountain, well, now we're going to change that thinking into more of an income plan.

How can I turn these assets into some sort of income stream and de-risk my profile? But when we're getting to that peak of the mountain, we have to think of the HIT.

I mentioned HIT meaning, H-I-T earlier, and that's going to stand for three very important hidden costs that you may not know about or may not account for. And that's going to be healthcare costs, inflation, and also taxes.

What have we seen in those three areas so far? Well, we know the older you get the higher healthcare costs are going to rise. And just in the last 10 years, we've seen a 65% increase in healthcare costs in our country.

You may not know this, but after the age of 80, about one in two people are going to need some sort of long-term care plan, some sort of medical plan to help with these healthcare costs.

So when you're creating that plan when you're approaching that peak, that's something you need to account for in your income plan. That leads me to my next point, the rising cost of inflation. Right now, we're at a 7% inflation rate.

Previously, we were accounting for about a 3% inflation rate whenever we were accounting for some sort of income plan.

So with the rising inflation, we need to account for some sort of increasing paycheck each year, because if you don't have some sort of level of paycheck, well, then you're actually losing buying power.

The stuff you were affording when you were 65, you won't be able to afford when you're 75, 85, and all the way to life expectancy. So it's very, very important when you're creating that income plan to account for some sort of increase in income.

Then lastly, the T, one of the most important parts of the HIT is the taxes. Well, when you're looking at your portfolio, you're looking at that plan of yours, how much of it is subject to taxes?

What's my tax bracket, and how much do you have to peel off and pay Uncle Sam so that I can get the after-tax dollars? Well, I'm not going to come out with you with a bunch of problems today about getting hit, getting the H-I-T. What are some solutions, and how do you avoid or combat getting hit?

Well, there are a couple of plans that we recommend the first one being a fixed index annuity. So when you're at that peak or approaching that peak when you look at all the assets, all the accumulation you created, how much of it can you peel off and put into a safe money option like a fixed index annuity, and were providing with a fixed indexed annuity is protection. A 0% floor so that principle is always protected.

But what we're accounting for is a guaranteed income stream that you can outlive from an A-rated insurance company that can be structured either single, or joint for your spouse, and also has an option for an increase in paycheck to account for the rising healthcare cost, to account for the rising cost of everything due to inflation.

So we're going to be peeling off some, either qualified money or non-qualified money and putting it into that fixed index annuity plan.

The second portion is life insurance using specifically index universal life insurance to provide you again with protection, that 0% floor, but also giving you access to a tax-free income stream. Whenever you're taking your money on the accumulation phase and you're deferring that tax bill, you're also deferring the tax calculation.

You may not know what tax you'll be owing in 20 or 30 years so it's always good to account for some sort of bucket to have that provides tax-free income and also access to a long-term care supplement through accelerated death benefit riders.

Now, I think it was the great Mike Tyson who once said, "Everybody has a plan until they get in the ring, and then they get hit in the face." Well, before you get in the ring, when you're approaching that descension down the mountain, you may want to make sure to get with your financial advisor and talk about the HIT.

The healthcare costs, the inflation taxes, and see if a fixed index annuity or fixed index universal life insurance would be good for your plan.

My name is Michael Clemente. And again, I want to thank you for your time today, and we'll see you next week.