Episode #288: The Safe Retirement Checklist to Protect Your Future

Hello, and welcome to another episode of "Money Script Monday." My name is Luke Geller. And today we are going to be talking about the safe retirement checklist to protect your future. When I think of a checklist, I think of something that you are going to create to really protect yourself against the unknown.

If you think about it, when I'm going on a long road trip, I'm going to do a few things. I'm going to check the air pressure on the tires on my ca., I'm going to take the car in for routine maintenance, make sure the oil's checked, see if any tires need to be rotated. I'm going to see if there's any cities along the way I want to stop at, and I'm also going to check the weather, see if I'm dealing with any snow, rain, anything out of the ordinary, right? Those are things you are doing to protect yourself on that long journey.

And retirement is a long journey. Today what I want to focus on, is four of the risks that you have to worry about that you can check off when you are going into retirement because your mind is put at ease when you kind of know what they are. So let's go through those four risks.

The first one I want to focus on is longevity risk. Longevity, it's a double-edged sword. Everyone wants to live longer, right? You want to live as long as possible, spend time with your family, do the things you want to do. But the longer you live, the longer your retirement funds and your retirement nest egg has to last you, right? We call that a risk multiplier. The longer you live, the longer you have to worry about all these other risks as well, right? So it's a risk multiplier. With medicine today, people are living longer than ever. It's definitely something you have to protect yourself against and make sure that your money is going to last as long as you do. Next, we are going to look at tax concentration risk.

Now, what's tax concentration? Well, it's the opposite of diversification. It's when all of your money is concentrated in one taxable bucket. Specifically, that tax-deferred bucket where the majority of Americans' retirement dollars are. And that's your 401(k), your 403(b), or any IRAs you might have, right? Because you might have saved $1 million, $2 million, $3 million plus in your retirement nest egg, but if they are in that tax-deferred bucket, if they are concentrated all in that bucket, then all that money isn't yours. Some of that's the government's, and it's going to be based off whatever that future tax rate is that's their portion. You want to make sure that you have a tax-diversified account, or tax-diversified retirement between tax-free, tax-deferred, and taxable buckets so that way you are not reliant on one.

The third risk we are going to talk about is inflation risk. The last few years we've seen inflation grow a lot. We've seen 7% to 9% inflation in the past two years. And that's something that you have to really concern yourself with. Because your dollar today that you are saving for retirement, is not going to be worth what it is today in 20 years. If you need $100,000 in retirement income today, well, in 20 years from now, you are going to need something closer to $140,000 or $150,000 for it to feel like it's doing the same amount of work. So you need to make sure that your retirement's protected against that inflation risk that is very evident, and that's not going anywhere.

The fourth and final retirement risk that you have to worry about is stock market volatility. It's one of the most important risks to consider because if you are about to retire, or you are retiring and there's stock market volatility and you have losses in your retirement account, and then you have to pull money from that retirement account for your retirement income, now you are taking a double loss. Because ideally in a perfect world, if you were to suffer any losses, you want to have the time to rebound and regain the losses you had when the market rebounds. But if you are pulling money from an account that also lost money, well, you are already behind the eight ball. So that's something you really want to consider and make sure that you have accounts that are not affected by stock market volatility, and that you can pull from multiple accounts as well.

How do we protect ourselves from these four retirement risks? Well, I'm going to go over something that can protect you from at least three of the four to put your mind at ease to make sure that you are protected from that. We are going to look at protected income. We are going to go over three sources of protected income that you need to know about, you need to know where yours are, and how you might be able to get more of it.

First, we are going to look at social security, which is a government-backed source of protected income. You have been paying the government your entire working life into this social security program so that when you retire, you get a guaranteed income that's not affected by stock market volatility, and that's going to increase with the cost-of-living expenses. While that covers three of the four risks right there, it's something you've already been paying into, so you really want to make sure you maximize that to the best of your ability.

Next, we want to look at pensions. Which are what we call corporate-backed sources of protected income. That's when you are working for a company or a corporation, and you are paying into that corporation or company's pension program so that when you retire, now you are getting a guaranteed protected income for the rest of your life. Now, that pension can be joint, so it protects you and your spouse. It can also have a cost-of-living adjustment feature as well to help protect you against that longevity risk, right? So those are, again, two forms of protected income. And then the final source of protected income we are going to look at, is asset-backed protected income.

The first one was government-backed, the pensions were corporate-backed. Now we are looking at fixed annuities, which are asset-backed. Which means you are taking a chunk of your assets that you've saved your entire life for, giving them to an insurance company to help you fund or to give you that asset-backed protected income that's going to last for the rest of your life. It's not going to be subject to stock market loss, and you can even have increasing income features to help combat inflation. So ideally, these sources of protected income, are going to protect you against three of these four retirement risks, right? And the one that it's not protecting you against, that tax concentration risk, is something that we can address in a different way. And I'm sure we have other videos that you can look at to help with that tax concentration risk.

But for being able to protect yourself against three of these four, is giving yourself peace of mind. When you are going down that road, that long journey of retirement, you can cross off those three risks knowing that you are protected during retirement. Whether you live too long, whether your money doesn't go as far as it used to, or whether the stock market crashes, your retirement and your income are protected because you knocked off that checklist. I hope today you were able to take a nugget or two that we went over and implement it for your retirement strategy. Again, my name is Luke Geller, and we hope to see you next time. Thank you.