Five Unexpected Threats to a Well-Planned Retirement

How to Stay On-Track When Unforeseen Challenges Arise

It's a scary feeling. You've planned carefully, saved appropriately, invested thoughtfully and are on track to retire. Then you are met with a significant and unexpected financial challenge. How do you stay on track?

Many families rely on the crucial years before retirement – a time when peak earnings can be socked away to fund retirement and eliminate any remaining debt. What happens when a major life event or financial hardship interrupts your plans?

Following are five unexpected events that can all be made easier by having the framework of a financial plan in place. We'll look at the potential impact of each, and offer steps to minimize the damage and get back on track to meet your retirement goals.

Threat No. 1: Job Loss

In an era of globalization and change, it is not uncommon for companies to be acquired, downsize or go bankrupt, all of which can lead to jobs being eliminated without much notice. Even well-paid senior employees can find themselves out of a job when they are least expecting to start over professionally. Others may find themselves having to opt out of the working world by choice earlier than expected due a serious illness or injury that makes maintaining a regular work schedule difficult.

Facing a job disruption in your 50s or early 60s when you're only a few years away from retirement means more than just lost income. It can mean reduced retirement savings, earlier-than-expected withdrawals and hampered progress toward paying down debt. To minimize the disruption, and prevent having to tap savings or take on more debt, it is important to have several months of living expenses set aside in a savings account. If you're married and your spouse works, you may decide jointly that it makes sense for them to work a bit longer to help replace the lost income.

If you do plan to return to work after a job loss or taking a leave to deal with medical issues, be realistic about those prospects and keep a flexible mindset. You may need to be open to accepting a position that isn't at the same level as your previous role and may not pay as well, which ultimately may mean working later in life than you had initially planned. Those who are unable to secure another position may need to consider reducing expenses such as downsizing to a smaller home or moving to a less expensive area. In any event, you will want to do the financial planning upfront to ensure you have options if the process takes longer than expected or doesn't go as you had hoped.

Threat No. 2: Death of a Spouse

The loss of companionship just when you are transitioning into retirement is a significant hardship. Beyond the emotional devastation of the unexpected loss, there are also significant financial implications to consider. Now more than ever, you'll want to lean on your support network and assemble a team of trusted professionals to help navigate the choices ahead.

One option to consider is the role of life insurance in a financial plan. Purchasing life insurance once you're already retired is likely going to be too expensive to be worthwhile. However, planning ahead for this potential need when you're younger can provide some cost-effective protection in the event of a worst-case scenario.

Managing the use of Social Security benefits is another way to protect a surviving spouse. Most retirees understand that delaying benefits until age 70 means they will receive a larger monthly payment, but their surviving spouse can also benefit from that increase. When one spouse dies, the survivor generally has the option to continue receiving their current benefit or switch to the same benefit amount the deceased spouse was receiving. Typically the higher-earning spouse would be the one to defer his/her benefits, but it's important to run the numbers to confirm that. Even if that spouse doesn't live long enough to benefit from delaying their Social Security (typically to at least age 80), the surviving spouse can continue to benefit from the larger amount.

For those who have a pension, selecting a joint-life benefit is one way to minimize the financial impact of an untimely death. While a joint-life benefit may mean receiving a smaller payment while you're both alive, it can provide significant peace of mind to know that the surviving spouse will continue to draw pension benefits after a death. Another option is to combine the pension and life insurance – keep the larger single-life benefit, but use the increased payment to purchase life insurance. In that scenario, the couple will receive the larger pension while also acquiring insurance protection. If the spouse without the pension were to die first, the survivor could cancel the insurance and continue receiving the larger pension amount.

Threat No. 3: Getting a Divorce

Similar to the death of a spouse, a late-life divorce can be even more devastating from a financial perspective. While no one expects to divorce in their 50s, there is very little that can be done to prepare for it. Divorce generally cuts assets right down the middle while nearly doubling expenses.

It's important not to waste any time in rewriting your financial plan and getting back on track. Align yourself with a team of experts you trust including an attorney and financial advisor who can help you traverse the complex decisions you will face. You will want to take advantage of catch up contributions on 401(k) and individual retirement accounts that allow those over age 50 to save more. If you were married longer than 10 years, consider applying for 50% of your ex-spouse's Social Security benefit if it is larger than your own.

The reality is that in most cases both spouses will need to reduce expenses in order to live within their means. As difficult as it might be, you may find that keeping the same home you've had all these years may no longer be affordable, so be prepared to adjust to a new housing situation.

Threat No. 4: Investing Too Conservatively or Facing a Down Market

It's not uncommon for adults today to spend one-third of their lives in retirement, so there is a significant risk to playing it "too safe" in your investment philosophy. This has rendered the old rule of thumb to subtract your age from 100 to determine the percentage of your portfolio that should be kept in stocks totally inappropriate. The outdated guidance often leads to portfolios that are too conservative to last as long as necessary, especially given the longer lifespans we see now. Decisions about asset allocation should be based on what you anticipate your needs will be during retirement and an evaluation of the resources you have to support them.

Additionally, many fear the effect a down market can have on a retirement portfolio. A market correction like we saw in 2008 and 2009 can create significant anxiety, and those who were forced to sell at the low point fared the worst. Structuring your financial plan so you are properly diversified and able to ride out a market downturn is critical. This means keeping your assets invested in such a way that you won't have to sell in a down market to cover your expenses. Consider keeping at least a year of living expenses in cash and fixed income investments to give you room to hold on until the market rebounds.

Threat No. 5: Being Too Generous

Almost 40% of Millennials are still living with their parents, the highest percentage measured in 75 years.[1] This may not come as a surprise when you consider that many in this generation entered the work force during the great recession and are saddled with significant student loan debt. Yet parents who continue to support an adult child long term can experience financial and lifestyle ramifications, and this is especially true for those approaching or in retirement.

Clearly, teaching kids good financial habits when they're young can set them on the path to making better choices when they're older.[2] When asked to help support adult children who are struggling, it is important to evaluate your own plan, determine how much support you can provide and for how long, and be clear about what you can and can't do. Use the opportunity to help your adult children create their own financial plans to pay down debt and save for their own independence.

In general, being too generous with family and friends can undermine a successful retirement. Amassing a sizable nest egg to support a long retirement can spur some to offer to take friends on expensive trips, or agree to pay private school or college tuition for grandchildren when it seems like you will have more than enough. It's important to keep in mind that you could easily need 100% of the income your portfolio generates, so be careful not to give too much away too soon. If being generous is important to you, then be sure to build this into your retirement-spending budget. Generosity may be rewarding, but if you run into financial hardship of your own, you may not be able to count on others to step forward to repay your kindness.

The common thread to all of these scenarios is the importance of developing a financial plan that can help mitigate the damage of any of these threats. While you can't plan for every contingency, you'll sleep better knowing you have a solid plan in place that can be adjusted when life throws you an unexpected curveball. Maintaining an emergency reserve and staying flexible as you approach retirement and beyond will also serve you well.

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1 "Percentage of Young Americans Living with Parents Rises to 75-Year High," *The Wall Street Journal,* Dec. 21, 2016

2 "Teaching Kids to Be Financially Fit," Baird, 2017