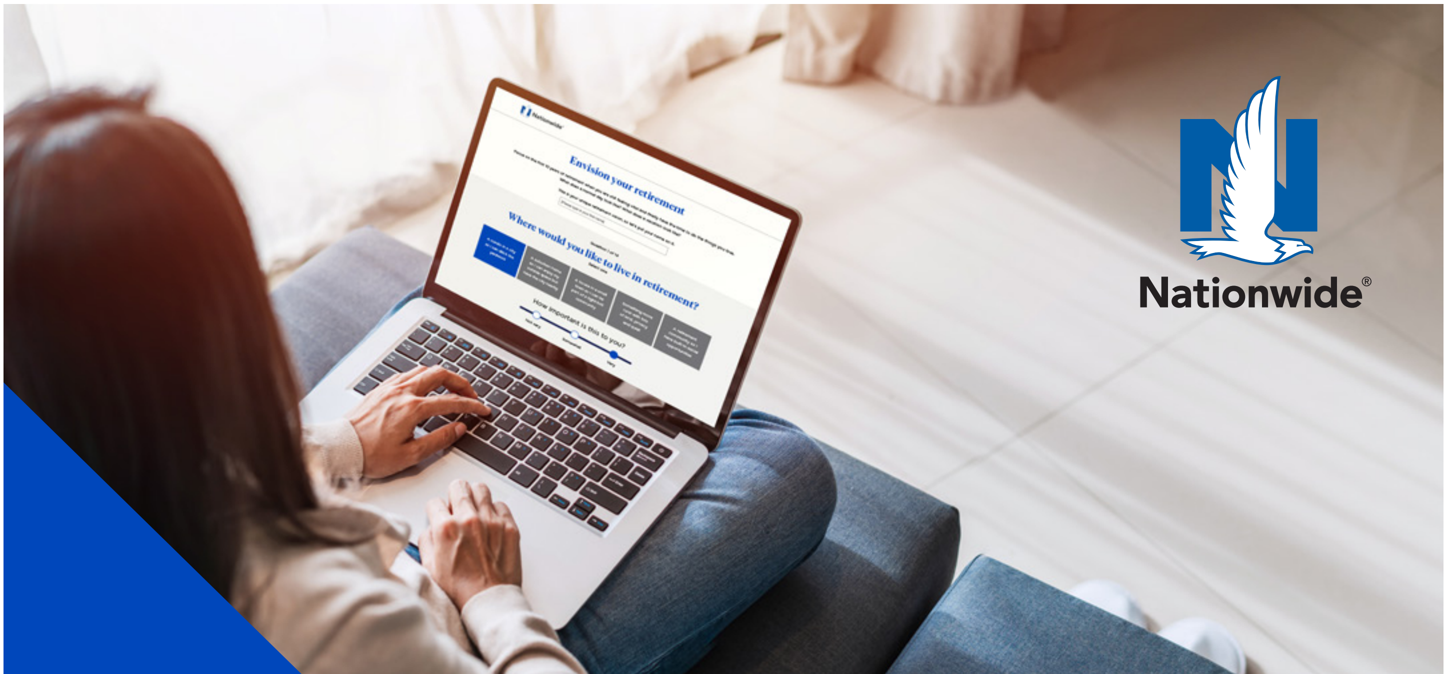

Total Retirement Income Planning

A guided discussion can help soften spending shocks for clients in retirement

Many clients approach retirement without fully understanding the expenses that may lie ahead. For example, health care is often far more costly than they were expecting. This is a time when clients want to focus on the positive aspects of retirement and don't want to be surprised by "spending shocks."

At the same time, these clients want income plans that hit the mark. They count on you to know how to convert their needs and wants into an accurate income plan free of surprises. So it's important to learn strategies to:

1. Uncover each client's unique retirement vision.
2. Generate income to help bring that vision to life.

This discussion guide can help you ask questions that will reveal the level of income a client needs and how to protect that income.

Retirement location

Unpacking the details of a retirement location (or relocation) helps retirees plan for new cost impacts such as HOA fees, changes to property taxes and health care costs.

Questions for your clients	Considerations for you
• Where do you hope to live in retirement? • If at a different property, will it result in a higher or lower housing cost? • Are you hoping to age in place at this property, or do you expect another move down the road? • Have you considered the cost of the move itself? • Would the move affect the way you get around (e.g., can you go from 2 cars to 1)? • If you ever need help, will you have any family members or close friends nearby? • Are there new HOA fees to account for? • Will existing home equity fully cover the cost of the new home?	• What tax impacts might come from the move (e.g., capital gains taxes or new property tax rates)? • Note any needed changes to trusted contacts on accounts. • If retirement is mainly to be spent in a new state, how will Medicare premiums or other out-of-pocket health care costs change? • What additional costs (such as home renovations) might be needed after moving to a new home?

Daily life

The choice to continue working, phase gradually into retirement or exit the workforce on a specific date is an important decision that has many impacts. Work may provide fulfillment, but it may reduce Social Security benefits (until your client reaches their full retirement age), increase taxes or lead to Medicare surcharges for some over age 65.

Questions for your clients	Considerations for you
• Will you work in retirement (full time, part time, unpaid volunteering)? • How do you plan to fill your days in retirement? • Do you expect to do more or less dining out? • After you stop working, how do you anticipate your level of spending changing compared with when you were working? • Do you plan to have any pets? (If so, what kind? Ownership costs for a cat can be far less than for a horse.) • What kind of transportation do you envision using?	• Can their current level of savings support their lifestyle goals? • Consider how wage income in retirement will affect Social Security taxation, Medicare IRMAA surcharges or income-related tax benefits (such as a Homestead credit). • What ongoing memberships (e.g., country club, gym, entertainment) will you have? • Consider the client's budgeting track record and whether spending guardrails would be helpful. • How frequently will vehicles be replaced? • What funds can be tapped for major purchases or unplanned repairs? • A pet insurance policy can offer protection from large ownership expenses.

Nonstandard expenses

Especially in the early years of retirement, a client may want to do more traveling. They may want to pay for a grandchild's wedding or buy a new car. They may want to replace their roof or windows before they sell their house. While some of these large or temporary expenses can be foreseen, there may also be unexpected "spending shocks," such as a sudden furnace failure or other major expense. Spending shocks can quickly unravel many financial plans and drain a retiree's savings, so it's important for clients to envision their future and plan for large spending needs over a long retirement.

Questions for your clients	Considerations for you
• What kind of retirement travel do you hope to do? (E.g., epic passport-required trips, long RV drives, family gatherings at a rented house, modest trips, staycations) • Do you anticipate any large one-time expenses during retirement? (Paying for a grandchild's wedding, taking a trip of a lifetime or buying a new car.) • Do you expect any new or large expenses regarding your home? (Hiring a lawn maintenance service, replacing a roof, etc.) • How frequently do you expect to replace the vehicle(s) you own? • Do you have any grandchildren you hope to spoil? (Trip to a Disney park, etc.)	• Consider how a tax-efficient retirement income strategy and sequencing withdrawals from a mix of tax-deferred, taxable and tax-free income sources can help prolong a client's savings. • For large, unplanned expenses, utilizing a securities-backed line of credit (instead of taking a taxable distribution) may protect clients from income-related consequences (i.e., higher tax brackets, taxation of Social Security benefits or Medicare IRMAA surcharges).

Health and wellness

One of the largest expenses in retirement is health care — whether it's the steady out-of-pocket costs associated with Medicare premiums and prescriptions or a "spending shock" such as a major medical incident or the need for long-term care. Learning more about your client's health can help you better anticipate their health care expenses in retirement.

Questions for your clients	Considerations for you
• Have you begun to consider your likely out-of-pocket health care costs in retirement? • Do you anticipate any large expenses due to current or potential health issues? • Are you anticipating caring for a family member at any point in your retirement? • If you get sick or injured, who will you turn to while you're recovering? • If your kids or grandkids needed support (childbirth or illness), how likely would you be their go-to?	• Recommend a health care and LTC cost assessment. • Assess how knowledgeable the client is about Medicare and its costs. • Consider how appropriate LTC coverage (or life insurance with an LTC rider) may be. • Consider costs to age in place (home remodelings). • Gauge the client's likelihood for in-home care and average associated costs.

Understand each spouse's unique vision and navigate differences

It could be very useful to pose this entire list of questions to each member of a couple — perhaps even arranging to do so when the other isn't there. Discovering how much or little their goals overlap and finding financial compromises may need to be part of your process.

Questions for your clients	Considerations for you
• Have you and your spouse discussed your individual visions for retirement? • If yes, do either of you feel worried or confident about the amount of overlap in your goals? • Do either you or your spouse seek a dependable retirement paycheck (above and beyond Social Security) to cover the most important aspects of your vision for retirement? • Do you expect the level of taxes you pay to go up or down in retirement? • What did you learn from your parents' retirement and how does that affect your priorities? • On a scale of 1 to 5, in which 1 is spending every dime of your retirement savings and 5 is leaving a legacy, where do you fall?	• Consider both an initial evaluation at retirement and again after any major changes, such as a new health condition or the death of one spouse. • After the death of the first spouse, consider how the surviving spouse's income will change. • How will required minimum distributions (and any taxes owed on them) change after the death of a first spouse? • Consider the suitability of tax-efficient planning strategies such as Roth conversions or qualified charitable distributions to help minimize future RMDs. • Is the client anticipating major expenses for children or parents? • Is your client anticipating an inheritance? How will this impact their financial life?

Review our article, "Navigating critical decisions in developing a retirement income plan," by Steve Vernon, retirement educator and President of Rest-of-Life Communications. He outlines best practices in building a retirement income plan and exploring strategies such as a phased retirement that may lead to greater levels of income in retirement.

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