# Regions Wealth Podcast

**Episode #35:** Your Retirement Roadmap: Creating a Spending Plan

A recent study found that just 18% of Americans retire with enough money to maintain their standard of living. Between longer life expectancies and the rising cost of healthcare, retirees of all income brackets need to engage in careful planning to ensure they don't outlive their money. So what can you do to ensure you're well-prepared for retirement? In this episode, Wealth Advisor Andrew George joins us to discuss the importance of a retirement spending plan and how to create one.

## *Episode Transcript*

Sarah Fister Gale:
Welcome to Regions Wealth Podcast — the podcast that tackles life's challenges with financial experience. I'm your host, Sarah Fister-Gale. A recent study found that just 18% of Americans had retired with enough money to maintain their standard of living. Between longer life expectancies and the rising cost of healthcare, today's retirees need to engage in careful planning to ensure they don't outlive their money. So what can you do to ensure you're well-prepared for retirement?

Joining me remotely is Andrew George. He's a Vice President and Wealth Advisor with Regions Private Wealth Management. Andrew, thanks for joining us today."

Andrew George:
Thanks for having me Sarah.

Sarah Fister Gale:
So in this episode of Regions Wealth podcast, we're discussing retirement spending. We've taken some frequently asked questions from a bunch of people and developed a character who needs your help. Let's listen.

Anton:
*"I'm Anton. Me and my wife Judy are both 58 years old. We're aiming to retire within the next few years — ideally by 60. I work for the government, so I've got a pension coming my way. Judy is an executive at a big company, so she's got a 401(k), and we've been contributing to that for years.*

*We currently live in Miami, but are looking for a change of scenery. Our dream is San Luis Obispo, California. While our savings are solid, our cost of living is probably going to increase a bit, and I'm kind of worried that what we have won't last. We've talked this over, and we think it makes the most sense for me to start collecting my Social Security. I know there will be a slight penalty, but the idea of retiring and relying exclusively on our savings makes me nervous."*

Sarah:

So Andrew, Anton and Judy are looking to retire a bit early, at age 60. What are some factors people need to consider when thinking about their retirement age?

Andrew George:

If they elect to start social security at age 62, they're also electing to fund the difference in their retirement living expenses and they're reduced Social Security benefits for 20 plus years. Second, Medicare is unavailable until age 65, so Anton and Judy are facing five years of really expensive health insurance premiums out of pocket, until they're eligible for Medicare. Next, I'd mention their longevity risk. Statistically, Anton and Judy will need their portfolio to last for about 25 plus years, and possibly as long as 40 years. Lastly, we can't ignore inflation which we're starting to see become a greater factor. Our portfolio manager was mentioning inflation is ranging between 5 and 6%. We know that the long term healthcare inflation averages 5% annually. So, we're starting to reach a problem where inflation is hitting the growth rate of their nest egg, and it stops growing. So this combination of high early expenses, decreased social security, long life spans, and high inflation can lead to disastrous results without a strong financial plan.

Sarah:

So do you think that people should not consider retiring early? Or do they just need a solid plan before they make that decision?

Andrew George:

They absolutely can retire early, but they need to have a solid plan. You know, if they have higher than average savings, they live a reasonable lifestyle in retirement, and a strong plan, it's definitely feasible.

Sarah:

Okay. So Anton says that he and his wife are planning on moving from Miami to California. What factors do people need to consider when relocating in retirement?

Andrew George:

I would probably look at three main issues. The cost of moving, the cost of living, and taxes. The cost of moving includes closing costs on buying and selling homes, they might face a possible increase in home values where they're wanting to move, and relocation expenses like moving - all of those things can add up really quickly. Second, the cost of living can vary drastically across the country. So, it's important to understand that cost of living in their desired location. And lastly, taxes. Not only income taxes, but estate and property taxes as well, as they can vary.

Sarah Fister Gale:

And can differences in taxes between states have a significant impact?

Andrew George:

Sure. It can be an issue and that's one of the things that's built into our financial plans. We can change the state of residence at retirement or at different points in clients' lives and show them the impact that those taxes and other things have on their nest egg.

Sarah Fister Gale:

So, Anton mentioned a slight penalty for withdrawing his Social Security early. How much can such penalties impact retirement income, and are there other risks associated with early withdrawal?

Andrew George:

The "slight" penalty as he refers to it is actually quite large. Social Security drops at five-ninths of a percent for each month that a person retires ahead of their full retirement age. And it equates to a huge reduction in benefits. I think it can be about 20 to 25% of their income for the rest of their life - that's gone. So it's a huge difference. We always advise clients to have some non-qualified money such as money markets, savings accounts, and investments outside of their qualified plan such as their 401(k) or 403(b)s and IRAs. Using those non-qualified assets in the first few years, allows people to delay that Social Security election to maximize income. And with the longevity risk they're facing, it's really important that we look to maximize income sources over their lifetime.

Sarah Fister Gale:

You mentioned the five-ninths reduction. Can you explain that a little bit more? How does that affect a long term retirement plan?

Andrew George:

Sure. So, each client based on their date of birth has a set full retirement age with a full retirement benefit, and if people elect to retire ahead of that date, for each month that they elect to take their benefit prior to their retirement age, there's a five-ninths of a percent drop.

Sarah Fister Gale:

Wow. And that doesn't back bounce up again once they reach retirement age?

Andrew George:

You're right, Sarah. That is a permanent election for the rest of their lives.

Sarah Fister Gale:

So when determining the best age to begin collecting their retirement benefits, what factors should they be considering?

Andrew George:

I'd say the most important thing is visit with a qualified wealth advisor that has a good financial planning tool like our rTrac. rTrac is a tool that allows us to analyze a client's financial situation by comparing the client's assets to their retirement income goals. We can input a client's assets and visually illustrate a client's long term outcome by comparing different decisions such as when to retire and how much money to take from different investments. The biggest advantage of having a plan is having all of these factors work in concert 'cause it's all gotta work together or else this doesn't make much sense. It's important to sit down with a professional and create a plan that takes everything into account.

Sarah Fister Gale:

That makes a lot of sense. Let's listen to a bit more of Anton's story.

Anton:

*"I have to admit, beyond saving and dreaming about what our retirement will look like, Judy and I haven't done a ton of planning. I look at my sister— she's got what she calls her "retirement road map" all plotted out. She knows exactly how much she's going to be taking in, she's estimated how much she'll have to spend, and knows precisely how long her money's gonna last her. Needless to say, she was pretty horrified when I told her I hadn't created a similar plan. She's a single mother on a tight budget, so she's always had to be super regimented… I'm not sure Judy and I really need to engage in that level of planning. Besides, I'm not sure where to begin with that sort of thing."*

Sarah Fister Gale:

So it sounds like Anton's sister is doing a lot of things right when it comes to planning for retirement. Is Anton correct in assuming that high income earners don't need to engage in that level of retirement planning?

Andrew George:

Sarah unfortunately, I'd say Anton is incorrect. I think everybody needs to take advantage of retirement income planning. Generally, what we see is people with high incomes are also high spenders. So, it's all a matter of perspective. Everybody needs a budget. People that aren't budgeting and start budgeting realize that they're wasting money in different places. So I highly recommend everybody do that.

Sarah Fister Gale:

Can you explain what a retirement income plan is and what it should include?

Andrew George:

So basically it's a retirement budget that takes into account the client's daily living expenses, bills, cost of maintaining their assets such as their homes, their vehicles, toys, and other unexpected expenses. Things like healthcare, market drops. So going back to our financial planning. Our tools help our clients take all of those things into account, and visually shows our clients how their decisions impact their plans.

Sarah Fister Gale:

Let's talk a little bit about spending. What is a retirement spending plan and why is that important?

Andrew George:

It's basically budgeting. You look at what you're spending, you review your bank accounts, review your credit card statements, and try to put that stuff into useful information. We can use spreadsheets, go back and look for holes, taking into account expected and unexpected and a lot of items we can help people come up with. And then there's things outside of dollars. We like to talk about what a client wants to do in their retirement. What are their hobbies? Where do they want to travel? And asking a lot of questions along those lines, and furthermore seeing if spouses are on the same page in what they want to do. And a lot of times we find out, they're not always.

Sarah Fister Gale:

Alright Andrew, let's listen to the final portion of Anton's story.

Anton:

*"Judy and I are still young and should have plenty of years ahead of us. We're both quite healthy and active, so I don't anticipate any major health problems for either of us. That being said, COVID did make me rethink things a tiny bit. My coworker Raul got sick during the first month of*

*the pandemic and still hasn't gotten better… he's one of those unlucky ones who wound up with a ton of lung damage and he's pretty scared it's gonna be permanent. He's just one year from retirement, had all of these big dreams… now, he's stuck worrying about how he's going to afford all these medical expenses. It's making me wonder  if I should be doing more to prepare for any health expenses that may come our way later in life. My sister advised me to look into long-term care insurance, but I'm not sure if that's the best move. I guess I'm starting to worry that there's a lot of factors Judy and I haven't considered. I just want to make sure that we're setting ourselves up for a successful, stress-free retirement."*

Sarah Fister Gale:

So, do expenses fluctuate through retirement, and how do you plan for that?

Andrew George:

Absolutely, they do. A number of studies show that people tend to be much more active early in retirement. They're traveling, doing things on their bucket list, spending money on hobbies, and enjoying life. Over time, we see a shift from that discretionary spending over to more essential healthcare expenses, and that's why it's important, not only to have a plan, but continue to monitor that spending over time to ensure that the assets last for their client's lifetime.

Sarah:

So we know the majority of retirees spend more on healthcare as they age. How can Anton and Judy prepare for that?

Andrew George:

I think it goes back to retirement spending planning. People can't go into retirement thinking the way that he's thinking right now. It's important that people accept facts. We look at percentages and likelihoods of different events occurring and look at the impact of those costs on their overall plan. Again, using tools can help illustrate this. I've read that the average retiree's healthcare expenses can make up about 15% of their overall spending budget. Another study shows that the average retiree will need about $300,000 of after tax dollars to pay for their healthcare. And obviously, that depends on a number of factors from geography to the client's health level.

Sarah Fister Gale:

It sounds like Raul's situation was a real wake up call for Anton. How can you prepare and protect your retirement before these kinds of surprises happen?

Andrew George:

Basically, I'd say have a plan. That plan can show you that long term care may be a wise choice for you. It's just being knowledgeable about what your options are and not ignoring likelihoods. Make plans before surprises happen, and plan for the unexpected.

Sarah Fister Gale:

So Andrew, what are some key takeaways we can share with our listeners from this conversation?

Andrew George:

Sure, Sarah. First and foremost get a plan in place. Nobody wants to be hit with unexpected expenses and the best way to avoid that's to have a thorough financial plan that looks at all aspects of their lives. It's really important because everything financial is interrelated due to the fact that most of us have a finite amount of assets. Secondly, I would say treat all of these planning portions as a comprehensive plan rather than just bits and pieces. All of it’s got to work together. Third, I would really look at those penalties on early withdrawals. The impact is a lot greater than most people realize. And finally work with a professional. See a wealth advisor. We have the knowledge and experience. We've done it before. We know what questions to ask, what things to help people think about. And we also help our clients put discipline to stay on top of their plans. Having a plan is useless if it's not followed and updated.

Sarah Fister Gale:

That was great advice. Thank you so much. This was Andrew George, Vice President and Wealth Advisor with Regions Private Wealth Management. We really appreciate the insights you've shared with us today.

Andrew George:

Great being with you, Sarah. Thank you.

Sarah Fister Gale:

And thank you for joining us today. If you’re thinking about retirement, be sure to check out past episodes of Regions Wealth Podcast. We’ve covered everything from early retirement planning to saving for healthcare expenses. You can find those episodes on regions.com/wealthpodcast, or through your favorite podcast service.

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