Biggest Threats to a Comfortable Retirement?

If you save and invest for decades, you'd like to know you can retire without financial worries. Nonetheless, you still have to be aware of some threats to a comfortable retirement — and how to respond to them.

These threats include:

• **Inflation** – Inflation has been high recently, but even a mild inflation rate can seriously erode your purchasing power. In fact, with just a 3% inflation rate, your expenses could double in about 25 years — and your retirement could easily last that long. So, if you're going to rely on your investment portfolio for a sizable part of your retirement income, you will need to own a reasonable number of growth-oriented investments, such as stocks or stock-based funds, whose potential returns can equal or exceed the inflation rate.

• **Excessive withdrawals** – Once you retire, you should establish a withdrawal rate for your portfolio — an amount you can take out each year and still feel secure that you won't run out of money. Some people make the mistake of withdrawing too much, too soon, once they're retired. Your withdrawal rate should be based on several factors, including your age at retirement, the size of your portfolio and the amount of income you receive from other sources, such as Social Security. A financial professional can help you determine a withdrawal rate that's appropriate for your needs.

• **Market volatility** – The financial markets will always fluctuate. When you're still working, this volatility may not be such a problem, as you have years or decades to recover from short-term downturns. But when you retire, you don't want to have to sell investments when their price is down. To help prevent this, you can tap into the cash in your portfolio, assuming you have enough to cover several months' worth of living expenses. You could also draw on a CD "ladder" — a group of CDs that mature at different times — to provide you with resources for the next few years and allow your equity investments time to recover their value.

• **Unexpected costs** – You had them when you were working, and you'll probably have them when you're retired: the furnace that breaks down, the car that needs a major repair, and so on. But if you've established an emergency fund containing a year's worth of living expenses, with the money kept in a liquid account, you may be able to "ride out" these costs without jeopardizing your investment portfolio. Be sure to keep these reserves separate from your typical day-to-day accounts to avoid the temptation of spending your emergency money.

• **Health** – Retirees may face more health concerns than younger people, and those concerns often come with larger medical bills. That's why it's important to maximize the benefits from Medicare or your Medicare Advantage plan. Also, if you contributed to a Health Savings Account (HSA) while you were working, and you haven't depleted it, you can use the money in retirement. As long as the HSA funds are used for qualified medical expenses, withdrawals are tax- and penalty-free, and won't be included in your income. This could help keep your income below certain levels, lower your Medicare premiums or avoid the 3.8% surtax on net investment income that can be assessed on high-net-worth taxpayers.

Retirement can be a pleasant time in your life — and you'll enjoy it more if you're prepared for the challenges that face all retirees.

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Edward Jones, Member SIPC.

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