NAGDCA Retirement Income Taskforce
Potential Risks in Insufficiently Planning for Retirement

In 2007 NAGDCA developed a Retirement Income task force to review current issues/risks that directly and indirectly affect plan participants in their post-retirement years. In looking at these issues it became extremely important that participants, as well as administrators, be aware of these potential risks when planning for a secure retirement. The task force prepared the following document, which provides an overview of various issues/risks, a description of each, their impact and considerations, as well as employer recommendations. The document, "Potential Risks in Insufficiently Planning for Retirement", has divided these post retirement risks into three major sub-categories: Financial Risks, Well-Being/Lifestyle Risks, and Health Risks.

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Financial Risks

Issue/Risk	**Description**	**Impact/Considerations**	**Employer Recommendations**
Establishing a Budget	Financial advisors agree that establishing and maintaining a budget is a crucial element of financial planning. In order to develop an accurate budget and determine how long their savings will last, retirees must determine how much savings they have, their monthly income and monthly expenses. After determining this, they will know whether they need to curtail spending to preserve savings or whether they can spend a bit more because they have a sufficient nest egg to last their lifetime.	Paying attention to monthly income and expenses is even more important during retirement. Retirees should take the time to determine their cash flow and net worth, essential steps to establishing an appropriate and realistic budget. Retirees need to appreciate that their income needs will vary depending upon their lifestyle. They must recognize the expense of their activities and think in terms of "funding a lifestyle". To the extent it is possible, retirees should attempt to use their retirement income not just to survive, but also to enjoy life through travel, etc.	Employers may wish to consider the resources made available to employees on basic financial planning. Educational resources provided to participants should include information on the importance of establishing a budget and steps to create one. Determine if your plan provider offers any assistance in this regard. Consider providing employees a list of questions (e.g., Are you fee-based or commission-based?) to ask potential financial planners to help them make an informed selection of a financial planner suited to their needs.

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Working In Retirement	Retirees should carefully weigh the possibility of working in retirement. On one hand, having the responsibility of a job can be rewarding and can reduce the amounts that must be withdrawn from retirement savings. On the other hand, it could have negative implications on benefits. For example, Social Security benefits could be reduced depending upon the individual's age and amount of income earned.	Some retirees find work, including part time work, fulfilling. It enables them to establish a routine as well as to generate additional income. Retirees can still work and receive Social Security benefits. In fact, once they reach full retirement age (age differs depending upon the year born), there is no limit on the amount they can earn while collecting Social Security benefits. However, retirees should be aware that if they are under full Social Security retirement age, they will have a portion of their Social Security benefits — up to a certain limit — reduced to adjust for earnings from employment.	Employers should reexamine their own policies regarding rehiring retirees. There may be opportunities to retain the knowledgeable skilled worker after retirement in a temporary or part-time position that would benefit both the employer and retiree. The employer may also want to consider the resources that are made available to employees on Social Security. Social Security Administration makes a number of helpful publications available in print and on line. Consider making some of these publications or a Social Security Fact Sheet available when participants retire.
When to Commence Social Security Payments	Deciding when to take Social Security benefits is not a simple decision. And because Social Security Administration (SSA) has implemented new retirement ages, more people may be faced with deciding when to begin collecting benefits.	There are disadvantages and advantages to taking Social Security benefits before full retirement age. The advantage is that retirees can collect benefits for a longer period. The disadvantage is that benefits are permanently reduced. Each individual's situation is different, so careful consideration should be given prior to making this decision. SSA suggests that retirees consider a number of factors to determine the best course of action: ▪ Health and life expectancy ▪ Spouse's income needs ▪ Power of compounding ▪ How long retiree intends to keep working ▪ The amount of retiree's retirement benefits	Resources should be made available to employees on Social Security benefits. SSA makes a number of helpful publications available in print and on line. Consider making some of these publications or a Social Security Fact Sheet available when participants retire by including them in their retirement packet, or providing a link to these resources from the employer's Web site.

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Retirement Income Plan – Investment Strategy	A sound retirement income plan includes a well-designed investment strategy to help retirees meet current expenses in retirement and ensure they do not outlive their account balances.	When they begin retirement, some participants become too conservative with their investments and run the risk of outliving their account balances. On the other hand, others maintain a portfolio that is too aggressive and risk the same outcome. The challenge is to create a diversified portfolio that provides retirees sufficient income while providing income over their life expectancy.	The employer should reevaluate the plan's investment lineup: ▪ Does your plan allow participants to achieve efficient diversification by offering investment options in a broad range of diverse asset classes, such as equities, bonds, cash and real estate? ▪ Do you offer "packaged products" (age-based funds, risk-based funds, managed accounts) for participants who prefer not to make specific asset allocation decisions? Consider the resources available to assist your participants in understanding how to develop (and maintain) a well diversified portfolio. Does your plan provider make personnel or materials available to assist in this process?
Retirement Income Plan – Withdrawal Rate	A sound retirement income plan also includes a reasonable withdrawal rate that will allow retirees to meet current financial obligations, but not drain savings too rapidly.	Many financial advisors agree that a 4% to 5% withdrawal rate is prudent over the long term in that it would allow income to continue to grow when combined with appropriately diversified retirement investment portfolios.	Employers should consider enhancing the resources that are made available to employees on distributions from pension/retirement plans. Also, the types of options that are offered for distributions may need to be examined to determine if sufficient choice is available, including lifetime annuities, to help participants develop a retirement income strategy to meet their needs. Does your plan provider offer counseling on distributions? Consider providing employees a list of questions (e.g., Are you fee-based or commission-based?) to ask potential financial planners in order to help employees make an informed decision that is suited to their needs.

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Retirement Income Plan -- Retirement Withdrawal Hierarchy	In addition to a well-designed investment strategy and reasonable withdrawal rate, a sound retirement income plan also includes a strategy for withdrawing retirement assets in the most efficient way as possible. Professional advisers call this a "retirement withdrawal hierarchy". This is a plan to help participants decide from which accounts to take money first.	The purpose of a retirement withdrawal hierarchy is to maximize the amount of money available to individuals -- and where applicable, their spouses -- over their lifetimes. This is accomplished by minimizing taxes and eliminating penalties on withdrawals. For example, conventional wisdom has dictated that withdrawals from taxable accounts be made before withdrawals from tax-deferred accounts in order to allow taxes to continue to be deferred on those accounts. However, recent research has determined that this approach is not always in the best interest of the participant.	Resources and educational material that are made available to employees on distributions from pension/retirement plans should include information about the tax consequences of withdrawing amounts from both pre-tax and after-tax accounts. Does your plan provider offer counseling on distributions? Consider providing employees a list of questions to ask potential tax advisors in order to allow employees to make an informed selection of an advisor suited to their needs.
Inflation Risk	Inflation risk is the risk that the rate of inflation will exceed the rate a retiree's investments grow or earn interest. This should be an ongoing concern for anyone on a fixed income. Retirees must keep their savings growing rapidly enough to at least keep pace with inflation and help protect against its negative effects on their purchasing power.	The risk of a retiree outliving his/her savings is greater than ever, thanks to factors such as longer life expectancies and the diminishing role of pensions and Social Security. At an annual inflation rate of 3%, the purchasing power of a monthly benefit payment can be cut in half over the course of a participant's retirement.	Understanding inflation risk is critical for retirees. Education should be included in workshops and brochures to illustrate the impact of inflation on retiree income. Also employers should consider their investment lineup to determine: ▪ Does your plan allow participants to achieve efficient diversification by offering investment options in a broad range of diverse asset classes, such as equities, bonds, cash and real estate? ▪ Do you offer "packaged products" (age-based funds, risk-based funds, managed accounts) for participants who prefer not to make specific asset allocation decisions? Consider the resources available to assist your participants in understanding how to develop (and maintain) a well-diversified portfolio.

Financial Risks			
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Emergency Fund/Asset Sources Beyond Fixed Income	Retirees are often able to rely exclusively on the steady income they receive from sources such as pensions, defined contribution retirement plans or possible Social Security. However, there may be unexpected situations that arise which require that they access assets from sources beyond their steady income streams. Retirees should be prepared for these situations by establishing an emergency fund or at a minimum, having a plan for withdrawing assets under these scenarios.	Without a reserve, retirees may be forced to incur credit card debt that could take many years to pay off and end up costing them much more in the long run. While personal finance experts agree emergency funds are necessary, there is no consensus on how much is enough. For active employees, recommendations range from $1,000 to a full year's income with most advice falling someplace in the middle. Retirees should also consider retaining a sufficient portion of their retirement account assets in less volatile investments to ensure they have a reserve they can count on, regardless of whether the market is up or down.	Employers should examine the resources and education that is provided to plan participants to guide them with respect to planning for unexpected expenses. For example, do you or your plan provider make personnel or materials available to assist participants with general financial planning issues?
Estate Planning	An estate plan has several elements including a will, assignment of power of attorney and a living will or healthcare proxy (medical power of attorney). For some individuals, a trust should also be established.	Financial professionals advise all individuals to establish a basic estate plan, regardless of their net worth. This plan should ensure the individual's family and financial goals are met after he/she dies. A will makes explicit where an individual wants his/her assets to be distributed when he/she dies. Dying without a will can be costly to heirs and does not allow the individual to have a say over who receives his/her assets. Trusts allow an individual to stipulate how and when his/her assets should be distributed at his/her death. They also reduce the cost and time associated with distributing an individual's assets.	Although estate planning may be considered outside the scope of the retirement plan, employers may want to consider providing general information or resources to help employees understand the basics of estate planning. For example, employees could be provided a list of questions to ask potential estate planners in order to allow them to make an informed selection of a planner suited to their needs.

Financial Risks			
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Survivor Benefits	When retiring, employees should fully assess their options that pertain to benefits for their spouse. Efforts should be made to avoid the situation where a surviving spouse is left without income or health insurance coverage.	A widow or widower is generally entitled to receive a "survivor" benefit from a plan participant's pension plan when the participant dies. This survivor benefit is typically automatic unless both spouses agree, in writing, to give it up. Due to the potential severe implications of a benefits waiver, careful consideration should be given to the waiver decision. Strong consideration should be given to any decisions associated with health insurance benefits for spouses as well.	Retirement education, including workshops and printed/Web site material should include information about the importance of considering the spouse or partner in benefit decisions. Consider the resources you make available to employees on survivor benefits. Do your pension plan, retirement plan and/or healthcare providers offer any guidance in terms of survivor benefits?

Well-Being / Lifestyle Risks			
Issue/Risk	**Description**	**Impact/Considerations**	**Employer Considerations**
Unable to find employment in retirement	Many retirees expect to continue working for pay during retirement, often for several years. However, health or insufficient skills may limit or prevent employment opportunities.	If this is determined before retirement, employees may remain in their career position longer than desirable. If this is not known until after retirement, retirees may be forced into undesirable employment, or seek to return to their pre-retirement job. Alternatively, expected income could be cut and previous decisions no longer valid regarding retirement benefits (e.g., postponing distributions). If income is not the reason for returning to work, finding other activities for social and emotional networking will be a priority.	Employers may want to establish a phased or transitional retirement program to provide employees with alternatives to an immediate and abrupt end to their working career. This approach also offers employers with the ability to retain skilled employees in the workforce longer, while giving other employees who may no longer be productive in their career job other choices for continuing to work. Employers also may help employees by identifying community activities that pre-retirees can get involved with before they retire and no longer have a co-worker support network.
Death of spouse/partner or divorce	During retirement, the death of a spouse/partner or divorce can result in drastic changes to the retiree's lifestyle.	This situation can cause severe mental and physical stress and dramatic changes to living expenses. Without adequate planning to consider partner/spouse changes, particularly at the time benefit decisions are made, the retiree may be left with few options.	Education to pre-retirees as well as counseling services should discuss the potential loss of a spouse/ partner as a result of death or divorce and provide information that should be taken into consideration when making benefit decisions.
Unexpected caregiver responsibilities	Many retirees find themselves being responsible for the physical and financial caring of: • parents or older relatives • adult children • grandchildren	Most retirees live on a fixed income and the increased expenses relating to caring for extended family members can create an extreme financial burden. Additionally, the physical and mental stress of providing care for parents, children and/or grandchildren can strain the health of the retiree.	Pre-retiree and retiree education should include information about how to deal with unexpected caregiver responsibilities and include community resources (e.g., contact information) that can be of assistance in these situations.

Well-Being / Lifestyle Risks			
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Retiree income is insufficient to support a desired lifestyle	Retirees may experience a drop in their income because of depleting savings too quickly or increased expenses, such as: • Unexpected expenses (e.g., medical bills) • Higher than expected normal living expenses (e.g., inflation, home maintenance)	Retirees may be forced to make adjustments to their desired lifestyle (reduce or eliminate activities or travel) or find ways to increase their retirement income, which may be difficult or impossible. Decreasing expenses may include: • Reducing or consolidating debt • Exploring retiree assistance programs (e.g., senior services and aid) Options for increasing income include: • Revise investment/income plan with discretionary assets • Part-time employment • Using home equity or liquidating assets	Helping pre-retirees understand the ways to make their self-managed assets last throughout retirement should be an educational topic in workshops and retirement planning material. Identifying ways to reduce retirement spending and increase income during retirement would also be a valuable part of this educational effort, for example: • Identifying community/national resources for retirees as part of the retirement application package • Explaining how home equity can be used to supplement income and pros/cons of this approach
Health issues require changes to lifestyle	Retirees will likely face many changes to their lifestyle because of health, such as: • no longer able to drive • unable to perform household tasks • unable to care for themselves • unable to live in home	When retirees need caregiving assistance to live, their options typically are to: • Pay for services if there is sufficient income • Count on their family and friends support networks • Use community resources (e.g., transportation, meals, etc.) • Move into assisted living	For most retirees, this time period is many years after they have severed the relationship with the employer. However, it is never too early to plan for this situation. Therefore, retirement education should address health issues and aging; and offer suggestions on how to maintain good health (diet, exercise, following doctor's orders) to delay or avoid these situations.

Well-Being / Lifestyle Risks			
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Friend and family support networks are not available	The loss of a support network, either because of the retiree or others moving from the area or death of family and friends, can cause major changes to the retirees' lifestyle.	Emotional and physical support may need to be handled by community services or paid for by the retiree in the absence of a support network of family and friends. This can lead to increased expenses and/or a lowering of the quality of life of the retiree.	Pre-retiree and retiree education should include information about community resources and how individuals can become involved in outside activities to develop a support network. Resources can also be identified to help retirees find community support services in their neighborhood. This information should also identify where retirees can go to find similar networks in other locations if they are expecting to move out of the area.
Depression and/or loneliness	There are many reasons that the elderly can become depressed or lonely during retirement that can affect their physical, emotional and even financial well-being.	End of life issues as well as loss of loved ones and friends can be emotionally, as well as financially, devastating to retirees. Recognizing depression and seeking help is the biggest issue, as retirees may have little contact with individuals who would notice their mental state and be able to offer assistance.	Pre-retiree and retiree education should stress the importance of remaining active and engaged throughout retirement to help maintain good mental health.

Well-Being / Lifestyle Risks			
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Scams, fraud on the elderly and incorrect or misleading information	The elderly are often a target of fraudulent tactics and susceptible to misleading information because of potential issues such as: • failing vision (can't read fine print) • too trusting of others • access to others views (e.g., co-workers) may be limited	Retirees often have access to large sums of money (e.g., their retirement assets or an inheritance) and become a target for scams, fraud and misleading information. Also, because they may be isolated or insulated from others views about something being legitimate or not, retirees may be more likely to be trusting of a "sales pitch" that is misleading or fraudulent. This can result in retirement savings being depleted with little or no recourse for recovery. In addition to financial distress, the retiree in this situation may suffer from emotional and physical stress.	Employees often discuss with co-workers potential scams they are hearing about within the community or on-line. Employers may also send broadcast news bulletins (such as via an intranet or e-mail) to let workers know about internet scams. Few retirees have similar outlets to learn of these situations. To address this, pre-retirement education can provide information about where information and help can be found, such as www.eldercare.gov – a federal government Web site, to determine if offers that are made to the retiree are legitimate and in their best interest. Information on how to select a financial adviser and identification of organizations that can be contacted to determine if an adviser is legitimate should also be part of the pre-retiree educational program. Taking this further, a proactive employer could establish a formal retiree network (such as a Web site) that allows retirees to post information for other retirees about questionable practices and scams. Employers could also post news items about identified scams and fraudulent practices.

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No longer able to make decisions	Retirees, such as those in the last stage of retirement, may be no longer capable of making life and financial decisions for themselves.	This situation can have a devastating impact on both the retiree and his or her family. Taking over decision making responsibilities from a retiree either because of mental or physical limitations can be extremely difficult for all involved. However, if there are no family members involved, or if no planning has taken place to establish a power of attorney for financial and medical decisions, this becomes an even greater problem.	The importance of wills, medical and financial power of attorneys, as well as other end of life planning documents should be discussed in pre-retiree and retiree education initiatives. Resources retirees can use to better understand these issues and execute these documents can also be provided as part of a total retirement package.
Planning hasn't taken place to address all stages of retirement	Not adequately planning to address all of the retirement life and financial risks is the biggest risk of all.	The impact of not planning is not being successful in retirement, financially or emotionally. This means that retirees will not be able to live the life that they want throughout their remaining years.	Employers can help employees avoid this retirement risk by providing a comprehensive education program that covers total retirement success and includes financial, health and well-being issues.

Health Risks			
Issue/Risk	**Description**	**Impact/Considerations**	**Employer Recommendations**
Health Issues	Problems associated with aging include chronic illness, loss of vision, mobility, and memory, etc.	Even with assistance from caregiver(s) and good medical care, many of these debilitating conditions cannot be reversed. Retiree should be aware of options (local Senior Citizen transport, assisted living arrangements) before the actual need arises.	For most retirees, the onset of debilitating conditions takes place long after they have severed the relationship with their employer. However, pre-retiree education should address the stages of health and incorporate material including website addresses for future reference.
Cost of Health Insurance	Even with medical coverage provided/subsidized by prior employer, cost of medical coverage may be a significant drain on retiree's budget.	Retirees consider the cost of available coverage in deciding to subscribe to a particular insurance option. If the option is chosen solely on a financial basis rather than based on the medical coverage the retiree actually needs, it could have a negative impact on the retiree's health.	Employer's pre-retirement education should include a detailed explanation of current retiree options and costs as well as reference material. Employer should help sponsor on-going information programs in association with any employer's retirees' clubs or organizations.
Long-term care	Retiree's or retiree's partner's need for full time assistance.	Retirees may delay the onset of much needed assistance because of the cost.	Employers should incorporate information on long term care options as part of the pre-retiree education process even though for most retirees, the onset of debilitating conditions takes place long after they have severed the relationship with the employer. Employer should help sponsor on-going information programs in association with any employer's retirees' clubs or organizations.

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Medical Insurance Coverage Changes	“Changes” to medical coverage including: -Provider changes (doctors, ancillary services) -Major Medical Coverage Changes (Hospital PPO) -Increase in co-pays, premiums -Prescription drug changes to preferred medications, mail order.	Not fully understanding coverage and keeping track of changes may result in unnecessarily paying costs associated with out-of-network providers /services. In addition, retiree may not be aware of enhancements to cover preventive screenings that could diagnose illness sooner, providing a better survival rate. If retiree does not understand the financial impact of using doctors out of network, etc., it will have a negative effect on health (increased stress level) as well as disposable income.	Employers should emphasize at “exit interviews” and at pre-retirement workshops, that employer sponsored medical coverage may differ for retirees and most likely will change over time. Employers must use multiple methods (website, mailing, newsletters) to notify retiree of any changes to their health insurance. Employers should maintain any “power of attorney” submissions for retirees to ensure that individual on file is also notified of any medical coverage changes (or, if self insured, can contact employer on retiree’s behalf to discuss coverage) Employer should help work in association with any employer’s retirees’ clubs or organizations to distribute updates about insurance coverage changes.
Unhealthy lifestyle (diet, no exercise)	Many retirees continue living unhealthy lifestyles which catch up with them.	Retirees experience increased cost in prescriptions, medical treatments, devices, oxygen, etc. Medical conditions resulting from prior poor eating habits or lack of exercise, impact on overall health.	Retirement education should address health issues and aging. Employer should consider offering programs (or allow programs to operate at employer locations) to encourage exercise, weight reduction, smoke cessation, etc.

Health Risks			
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Failure to follow doctor's advice regarding screenings and maintenance dosage	Many people stop taking prescription medication as soon as they feel better, disregarding instructions. Many avoid screenings under the assumption that without symptoms, they can postpone going for tests. Not understanding that drugs interact- may "swap" meds or mix and match without recognizing the consequences.	The failure to follow the prescribed advice could result in, at a minimum, delay in recuperation or continued ill health.	Education to pre-retirees should incorporate advice relating to health issues. To round out sessions on retiree health, dental or ancillary service coverage which may be more geared to premiums or covered items, employer should offer sessions, handouts and website addresses relating to the importance of a healthy lifestyle and preventive check-ups/screenings in retirement.
Stress of taking care of partner/elderly or young family member	Many retirees find themselves responsible for caring for their partners, their parents or other elderly relatives as well as their grandchildren.	The physical and mental stress of taking care of others often strains the health of the retiree. The lifting and transporting as well as the organizing of all activities, including doctor's appointments, impacts negativity on the physical and mental health of the retiree.	Pre-retiree education should include information about how to deal with caregiver responsibilities. Employer should help sponsor related advisory programs given in association with any employer's retirees' clubs or organizations.