

Reality Check on Retirement Spending

Many financial planners recommend that you plan to replace 80% to 90% of your pre-retirement income to maintain your current standard of living in retirement. But a government study challenges that advice. It finds that spending in retirement could decline by just 1% to 6%, not the assumed 20%.¹

Rather than rely on a big drop in spending after you retire, carefully consider likely decreases in income, the cost of the activities you are likely to pursue in retirement and other expenses like health care. You may want to count on having 100% of your current expenses. This could provide a more realistic benchmark for planning for a long retirement. ●

1. "The Retirement Consumption Puzzle: Actual Spending Change in Panel Data," National Bureau of Economic Research and Rand Corp., April 2008.

Have Questions? Need More Information?

Web site*: www.gwrs.com

Please note: This newsletter does not constitute investment or financial-planning advice. Please consult with your financial planner, attorney and/or tax adviser as needed.

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FINANCIAL Footnotes

A retirement-planning newsletter
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Make It Personal

Match your investment mix with your goals and life stage

Your asset allocation strategy—the way you divide your investments among stocks, bonds and cash—is all about you. It should reflect your financial goals and your life stage—specifically the level of risk that's appropriate for your age and risk tolerance.

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Make It Personal

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The building blocks

The right combination of assets helps create a portfolio with the potential to provide the long-term return you need without more short-term risk than you can comfortably handle. Historically, stocks have delivered high long-term returns but a very bumpy ride along the way. Bonds haven't fluctuated as dramatically in the short run but barely outpaced inflation longer term. Cash was the least volatile, but paid the lowest long-term return.¹ Please keep in mind that past performance is not a guarantee or prediction of future results.

The younger you are, the more you might want to consider stock investments as a larger portion of your portfolio in order to benefit from their growth potential; you have more time to recover from big downturns. However, if you're closer to retirement, consider a higher concentration of bonds and cash investments to cushion the impact of stock market declines.

Adjust annually

Your allocation changes over time due to the ups and downs of the financial markets. Consider rebalancing at least once a year to get back on your chosen course. You can do this by logging on to your workplace retirement plan's Web site and shifting the percentages of your investments in stocks, bonds and cash back to their original targets. ◉

Asset allocation and/or rebalancing neither ensure a profit nor protect against loss in declining markets.

1. Morningstar, Inc., Ibbotson® SBBP® 2012 Classic Yearbook.

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Rx for Your Health: Save More Now

Even with Medicare, expect high health care costs

Everyone age 65 or older is eligible for Medicare. While it's true that Medicare may cover hospital care at no charge if you or your spouse paid Medicare taxes during your working years, it doesn't cover most dental, vision and hearing services or long-term care.

You'll also have out-of-pocket costs like deductibles and co-insurance, and you must pay premiums for coverage of doctors' visits and prescription drugs. How much might all of this cost you? For the average, healthy 65-year-old married couple, the estimated amount of money needed for out-of-pocket health care expenses during retirement is more than \$250,000.¹



Coverage for added expenses

You may decide to buy a "Medigap" policy from a private insurance company to pay for charges not covered by Medicare. You also may buy private long-term care insurance. Before purchasing any policy, make sure you understand the terms of what's included in the coverage.

It's wise to assume that your nest egg must be large enough to cover health care-related expenses throughout your retirement lifetime. You may find it helpful to save for health care in an account earmarked for those expenses, such as a Health Savings Account, in which contributions may be tax-deductible. ◉

1. "Funding Savings Needed for Health Expenses for Persons Eligible for Medicare," ebrl.org, December 2010.