MICHIGAN OFFICE OF RETIREMENT SERVICES

VOYA FINANCIAL

Retirement Top Risks

Prepare for risks that could get in the way of saving for your retirement vision

Over the years, retirement visions have changed

For many, retirement is now about being active, involved and engaged with family and community. Paying for that vision can be expensive. A number of factors could put your retirement income goals at risk. Without the right planning, outliving your savings could be a real possibility. So, are you confident you are ready to retire?

1 Outliving your retirement savings

Life expectancy in the United States grew at a steady rate until falling in 2020 by 1.5 years to 77.3 years. Deaths from the COVID-19 pandemic contributed to around 74% of the decline followed by drug overdoses. The disparity in life expectancy between women and men also expanded to 5.7 years, with women now expected to live 80.2 years and men 74.5 years.[1]

Although we can still anticipate living longer than previous generations, it's hard to plan for the exact number of years. Keep in mind that the longer you live, the more money you'll need for your retirement. Consider the possibility that you'll need your retirement income to last into your 90s for women and into your 80s for men.

2 Having too many retirement expenses

Based on general retirement guidelines, your savings may need to account for 70%–80% of your pre-retirement income, depending on how active (or expensive) your lifestyle will be. During retirement, you'll likely be switching from earning or saving mode to spending mode. Take that into account when planning your retirement vision and how much you'll need.

Some costs disappear when you stop working, like work clothes, parking, payroll taxes, and retirement plan contributions. Other expenses may quickly replace or outpace working costs like: vacations, travel, health insurance premiums, copays, and medications. Depending on your health, you may even need long-term care.

3 Depending too much on Social Security

Social Security benefits are intended to replace only some of a worker's pre-retirement earnings. On average, workers only receive 40% of their pre-retirement income from Social Security.[2]

Among elderly Social Security beneficiaries, 42% of women and 37% of men receive half or more of their income from Social Security while 15% of women and 12% of men rely on Social Security for 90% or more of their income.[3]

For the next generation of retirees, it may be a good idea to plan for Social Security to cover 30% or less in case of early retirement, disability retirement, or savings shortfalls.

4 Outspending inflation[3]

With inflation, the cost of goods and services increases and the value of your money decreases. While working, wages usually rise with the costs of goods and services, so inflation is often not a big concern. When you retire and are living off of your savings, inflation can strip you of needed income.

General retirement guidance suggests individuals calculate their retirement needs using a 3% inflation rate. However, keep in mind that inflation hit upwards of 10% in the late '70s and early '80s.[4]

It's often said that the older you get, the less risk you should accept with your investments. However, you also want your savings to grow and keep pace with inflation.

If the rate of return on your investments isn't outpacing inflation, your retirement income may be affected. Even low inflation can damage your purchasing power over time.

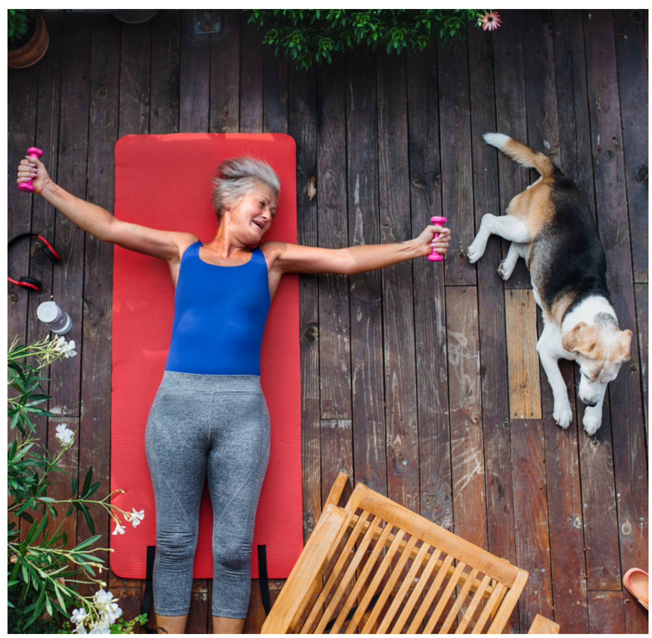
5 Not understanding the tax rules for your plan

Regardless of whether you invest aggressively or conservatively, it's important to understand if your savings accounts will be taxed before or after you start withdrawals. Review and understand your tax-deferred savings opportunities.

The **State of Michigan 401(k) and 457 Plans** are just two plans available to you that allow you to contribute before-tax money.

Opening an individual retirement account (IRA) is another. A **traditional IRA** lets you contribute before-tax money and accumulate interest on a tax-deferred basis. That means you won't pay income tax until after you begin taking withdrawals at retirement — when you may be in a lower tax bracket.

With a **Roth IRA**, you contribute after-tax dollars. Investment gains, if any, are also accumulated on a tax-deferred basis. When you retire, distributions are tax-free, as long as you've satisfied the five-year holding period; and are age 59.5 or older or disabled.



1. Reuters, *U.S. life expectancy falls to lowest level in almost 20 years due to COVID-19 -CDC,* July 21, 2021.
2. Social Security Administration, *Learn About Retirement Benefits*, 2021.
3. Social Security Administration, *Fact Sheet: Social Security*, June 2021.
4. NewRetirement, *Inflation Risk: Should You Be Worried About Inflation and Your Retirement?*, May 12, 2021.

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