Chapter 4

ANTICIPATE THE FINANCIAL RISKS IN RETIREMENT

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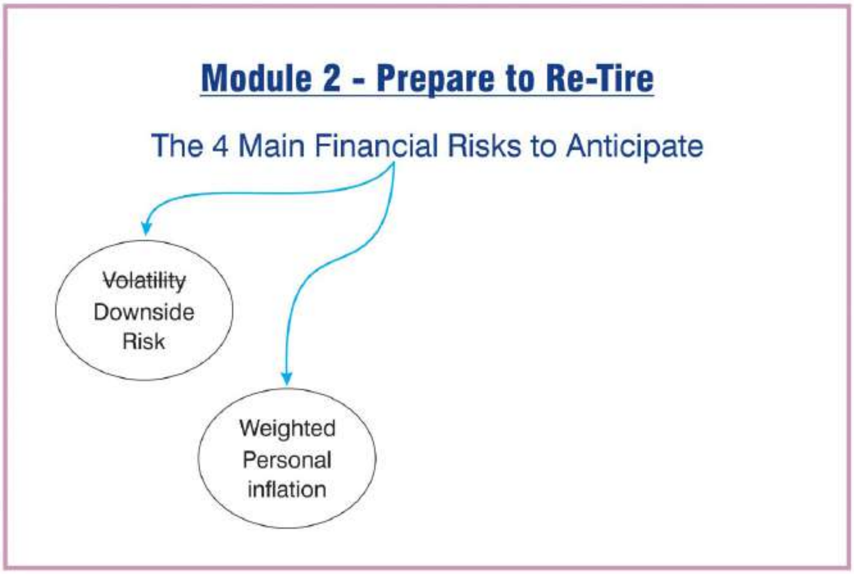
Some of us may say that I know what my financial risk. But this chapter will give you a new spin. A new twist to what you already know when it comes to financial concerns during this stage of retirement.

The 4 main Financial Risks to Anticipate

1) Volatility

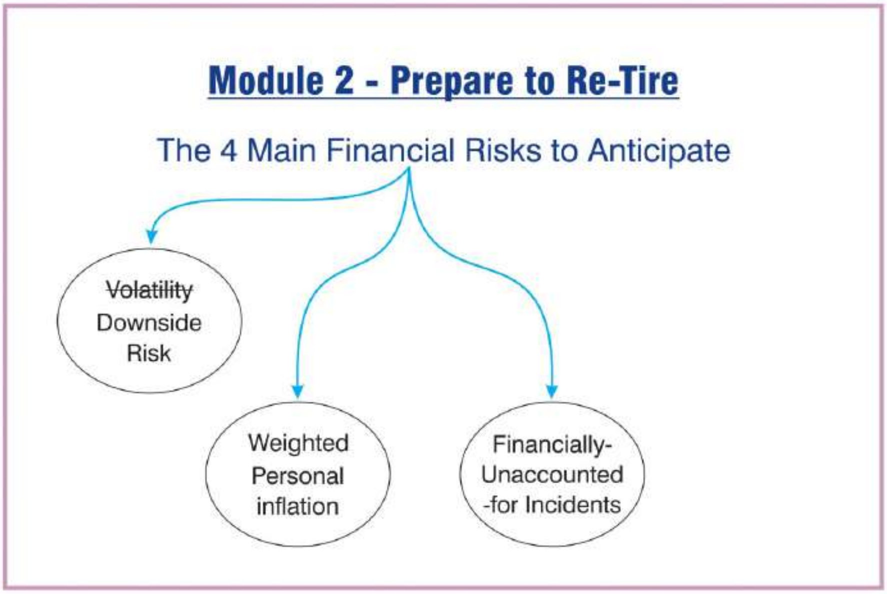
Volatility relates to the economy, the stock market which ultimately affects how your investment portfolio performs. And your investment portfolio means your retirement nest egg that is used to generate cash flow or regular income for your day to day expenses. Volatility is a two edges sword. Volatility refers to how an investment or your portfolio is more likely if you jump up in value and also equally likely to depreciate. Now the thing is nobody ever complains about that investment going up suddenly. But the thing that worries most retirees about capital preservation is why volatility is misleading. The only one to look at half of what volatility is about is only on the downside risk and when it comes to the downside risk, it is essentially like playing Russian roulette. You can average out what would be your portfolio return for the next 20 years by taking the historical return of a portfolio for the past 10 years or so. But the thing is the stock market is very unpredictable. Mr. Market has its own emotion. There will be inconsistency, twists, and turns along the way. So the thing is you don't want to get into an investment that is too volatile, just to forego your potential chances for high return so that you protect your capital. You rely a lot on this capital to generate a return, to generate income for your day to day expenses. In subsequent chapters, we are going to cover the problem of sequential return and loss during retirement.



2) Weighted personal inflation

This is a very important issue of cost inflation. Inflation is not what is reported in the national average. Weighted personal inflation is not everything in your spending is prone to inflation. The reason being spending something like after retirement you are still paying for mortgage repayment, it doesn't inflate. If you still have medical insurance then you need to pay a premium for that and it does not inflate due to inflation, although medical inflation does if you do not have medical insurance. So there is a way that you know what the portion was, the time or expense that would be prone to inflation. And the other thing when it comes to inflation, it is about the people who like to eat out and inflation will be much higher. But for people who enjoy cooking at home, making their dishes then you wouldn't have this kind of problem. So your inflation rate would be even lower than the national average. But if you are a big spender then your inflation rate will be higher than the national average.

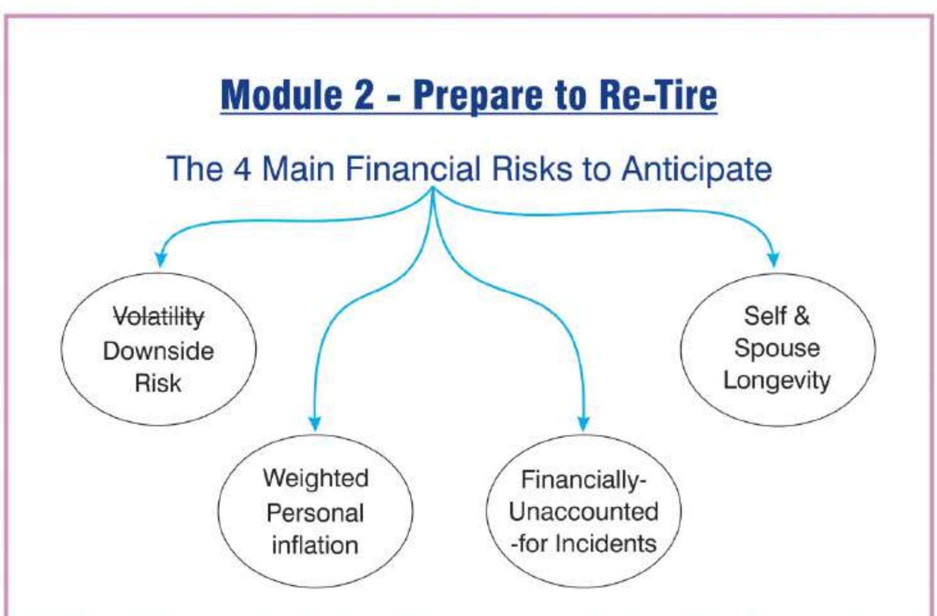
Now the thing is inflation is always there. Effective inflation grows at 5 or 3 percent per year, annual return is only 5 percent a year for your portfolio. So effective return will be only 2 percent so just take that in mind because when the day when you stop taking a paycheck for working actively, everything else matters because you have your cash flows, rising taxes, insurance more than you need to spend.



3) Financially Unaccounted for Incidents

These are incidents that you do not account for in your retirement planning. Some are voluntary, some are unplanned, and some are distracting. For example, if you don't have medical insurance any critical illness hits you will become very catastrophic that you need to spend money on the other things like spouse illness or a sizable investment loss or a divorce or remarriage.

The expenses that people cannot avoid are those they spend on supporting their adult children. These are again the most impactful thing that could hit your retirement. It's the fact that you might have to support your children financially, more than you have ever expected. Things like when they are getting the first car, they are getting their first house or maybe some financial support for their wedding or for the grandchildren and things like that. So these are the things that you need to anticipate. Children's expenses or family member expenses are always there. So when we do retirement planning, we cannot get affected by any contingencies. It's always expected to spend money on adult children or when adult children ask for some financial assistance.



4) Self and Spouse Longevity

It seems like a good problem to have for a retiree and that is called longevity and this includes yourself and your wife because it is normally our human lifespan. We can plan for our retirement under the age of 80. Now the thing is what if you live beyond age 80. It seems a good problem to have. But if you do not plan for anything, your finances to extend beyond the life of the age of 80 and that is where you have a problem because you are running out of money before running out of life. But this is not a critical problem if you have known you still have your kids. After the age of 50, it would not be a very active lifestyle. Life is just very relaxing when you get older. These are the preparation that a retiree needs to make.