5 Retirement Concerns Too Often Overlooked

Baby boomers entering their "second acts" should think about these matters.

Provided by Frederick Saide, Ph.D.

Retirement is undeniably a major life and financial transition. Even so, baby boomers can run the risk of growing nonchalant about some of the financial challenges that retirement poses, for not all are immediately obvious. In looking forward to their "second acts," boomers may overlook a few matters that a thorough retirement strategy needs to address.

What's more, many retirees fail to think through and plan their retirement which often leaves then bored and searching for a purpose.

RMDs. The Internal Revenue Service directs seniors to withdraw money from qualified retirement accounts after age 72. This class of accounts includes traditional IRAs and employer-sponsored retirement plans. These drawdowns are officially termed Required Minimum Distributions (RMDs).[1] RMDs cannot be invested in another tax-deductible plan, nor can they be invested in a Roth IRA.

Taxes. Speaking of RMDs, the income from an RMD is fully taxable. The income may certainly be a plus, but it may also send a retiree into a higher income tax bracket for the year.[1]

Retirement does not necessarily imply reduced taxes. Many people may find they pay more in taxes when retired than before they were retired. While people may earn less in retirement than they once did, many forms of income are taxable: RMDs; investment income and dividends; most pensions; even a portion of Social Security income depending on a taxpayer's total income and filing status. Of course, once a mortgage is paid off, a retiree loses the chance to take the significant mortgage interest deduction.[2]

Health care costs. Those who retire in reasonably good health may not be inclined to think about health care crises, but they could occur sooner rather than later – and they could be costly. A report by Health View Services found that even with additional insurance coverages such as Medicare Part D, Medigap, and dental insurance, a healthy 65-year-old couple can expect to pay almost $208,000 out-of-pocket for their healthcare expenses.[3]

Eldercare needs. Those who live longer, or face health complications will probably need some form of long-term care. One month's stay in a private room in a nursing home costs an average of $9,000 nationally, so it's important to consider these expenses when preparing for retirement. Long-term care insurance is expensive, though, and can be difficult to obtain.[4] Alternately, there are newer forms of long-term care coverage that can be explored even for those who are uninsurable. Long term care coverage is a form of income replacement. When you self-pay those dollars are lost forever. Think of long-term care coverage as a hedge against frailty.

One other end-of-life expense many retirees overlook: funeral and burial costs. Preparing to address this expense may help surviving spouses and children. A funeral trust or funeral estate trust may be worth exploring because they provide quick liquidity providing the insurance amount within twenty-four hours without waiting for the death certificate.

Rising consumer prices.

Historically, healthcare costs inflation has risen between 1.5-2 times the Consumer Price Index. For a 65-year-old couple, this equates to an additional projected $85,917 in lifetime retirement healthcare costs. Retirees would be wise to invest in a way that gives them the potential to keep up with increasing consumer costs.[5]

As part of your preparation for retirement, give these matters some thought. Enjoy the here and now but recognize the potential for these factors to impact your financial future. Our Red Light on the Dashboard holistic review of your plan can be helpful in a time of uncertainty.

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