The Pension Trust

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Financial Risks Retirees Face

Some of the financial risks in retirement and some of the things you can do to control those risks are -

1. **Adequate Income Risk:** The risk of not having enough income or assets to maintain the lifestyle wanted in retirement. A rule-of-thumb is that retirees need about 70%-80% of their pre-retirement income to maintain the same lifestyle in retirement.
   a. ***Defined Benefit pension*** – Maximize your working career to build more pension service credits. Defer your retirement date to later (age 60+?) so your pension is bigger. If you move between public sector jobs in California, keep up the Reciprocity links between the different retirement systems.
   b. ***Defined Contribution savings*** – Save as much as you can in 401(k) and 457 plans. Save more in IRAs and Roth IRAs if you are eligible and other savings accounts.
   c. ***Social Security*** – Carefully consider when to draw your SS benefits. Age 62 is early, but greatly reduced. SS benefits are higher if you start at your Full Eligibility age (e.g., 67) or wait until age 70.

2. **Longevity Risk:** Retirees do have the risk of living too long such that they outlive their savings.
   a. ***Defined Benefit pension*** – Pensions like those offered in SLO County employment are paid for life. You cannot out-live those pension payments. Don't cash-out your DB pension account just for some short-term cash need – you'll regret it when you don't have that pension in retirement.
   b. ***Savings and Investments*** – Take your DC plan assets like 401(k) & 457 plans, IRAs and other savings (including home equity) and follow a judicious spending plan geared to how long you expect to live. Don't blow it all at once…

3. **Market Risk:** The ups and downs in investment markets for your DC Plan and other savings. Higher returns come with higher risk.
   a. ***Diversification*** – Spread your investments over multiple types of assets like stocks, bonds, and fixed accounts.
   b. ***Appropriate risk level*** – Consider how long it is until you need the funds you invest. Generally, the farther off you need the money, the more risk you can take.

c. ***Stay the Course*** – Investing is a long-term effort. Reacting emotionally and bailing out of bad markets is usually just a way to lock-in your loses. Keep in mind that an appropriate level of risk for you probably changes over time.

4. **Inflation Risk:** The risk of the cost of the things you buy going up faster than your income. That $12 Tri-Tip sandwich you just had (that cost $11 in 2020) at a 3% inflation rate will cost $29 in 30 years.
    a. ***COLA provisions*** **–** The SLO County Retirement has COLA provisions built-in that partially protect you from inflation. COLAs depend on CPI inflation and the maximum COLA in Tier 1 is 3%/year, Tiers 2 & 3 have 2% COLA maximums.
    b. ***Other assets*** **–** The investment returns on your other accounts and the equity you may have in your home might provide some protection from inflation over the long haul.

5. **Health Risk:** The risk of unexpected healthcare costs.
    a. ***Insurance*** – Maintain prudent levels of health insurance through Medicare and other policies. Perhaps consider long-term care insurance, but that is an expensive option.
    b. ***Savings*** – Don't squander your DC plan assets or IRA assets too early. Keep a reserve to, in effect, self-insure against higher healthcare costs as you age.
    c. ***Lifestyle*** – move more, eat less, stop smoking, drink in moderation, wear seatbelts.

6. **Family Risk:** The risk of having to financially support relatives.
    a. ***Savings*** – Keep savings like DC Plan assets in reserve.
    b. ***Lifestyle*** – Consider the level of housing you need – not want – and spending on luxuries carefully so you have more funds for relatives in need.

7. **Policy Risk:** The risk of potential changes to benefits like Social Security.
    a. ***Your DB pension*** – Your SLOCPT pension is safe barring nationwide financial collapse or bankruptcy.
    b. ***Social Security*** – Pay attention and Vote.