

Planning for unexpected retirement costs



When picturing retirement, there may be visions of a dream vacation, visiting friends and family, or learning a new hobby. Having the financial freedom to pursue these goals takes proper planning. But what about the unexpected expenses of retirement? Consider these common "surprise" retirement costs to create an accurate budget for future spending.

How to budget for retirement

On a positive note, people are living longer than ever before, allowing them to spend more time with loved ones and enjoy retirement. However, with these added years, savings will need to stretch even further and cover unexpected expenses that may arise along the way. Consulting with a financial professional as early as possible can help individuals be better prepared by creating a retirement budget that factors in the desired lifestyle, planned and unexpected expenses, and sources of retirement income. You'll be able to review available options together and create a financial plan to help ensure retirement savings match financial goals and can help cover any unplanned expenses on the horizon.

How do you predict spending in retirement?

Calculating spending in retirement involves several factors, including looking at current expenses, expected lifestyle changes, inflation, healthcare costs, and potential sources of income. Predicting retirement income needs is not an exact science, and uncertainties are involved. Still, by systematically considering various factors, you can identify potential income gaps and create a reasonable estimate to guide your retirement planning.

Unexpected retirement costs

Surprise retirement costs can catch retirees off guard and potentially derail their financial plans if they're not adequately prepared. Here are some common unexpected retirement costs to consider.

Overlooked healthcare costs

Healthcare costs are often the most unexpected budget buster among retirement expenses. With the average couple over age 65 expected to spend \$315,000 on healthcare alone, it's important to consider ways to cover these costs beyond traditional retirement income. For example, some life insurance policies may offer accelerated death benefits that can provide access to a portion of a policy's death benefit during your lifetime should you be diagnosed with a qualifying illness.¹ Fixed index annuities are another option and can help provide growth potential along with a guaranteed stream of income payments for the rest of retirement.

Medicare costs

A common misconception is that Medicare will pay for all healthcare needs in retirement when, in actuality, it likely won't cover all your costs. Some items not covered by Medicare include dental care, hearing aids, and dentures. There is the option to buy a supplemental Medicare health insurance plan called Medigap, but this supplemental policy has a monthly premium.

Long-term care

Many people may not picture long-term care when they think about retirement, but it's a reality that should be considered. Someone turning 65 today has almost a 70% chance of needing long-term care services and support in their remaining years. Unfortunately, Medicare and most health insurance plans don't cover long-term care, even if it's provided at home, in an assisted living facility, or at a nursing home.

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Loss of a spouse

Managing retirement income following the death of a spouse can be challenging. You should take stock of your current financial situation, including income, expenses, assets, and debts. To assess how the loss of a partner's income may impact your overall financial picture, it's a good idea to review what survivor benefits you may be entitled to receive, including:

- Social Security or pension
- Life insurance policies
- Retirement accounts and annuities
- Other financial accounts

By taking proactive steps and seeking support when needed, it can be easier to navigate this challenging transition and keep on track financially.

Home renovations

Many retirees choose to stay in their current homes, especially if they've worked hard to pay off the mortgage and/or enjoy their neighborhood and community. However, as people age, they may find they need to make house improvements to age in place, including modifying the stairs, hallways, flooring, kitchen, and bathrooms to be more accessible. These types of renovations will likely require licensed contractors, and the cost will vary depending on the size of the project.

Preparing for retirement

Since life circumstances can change, it's helpful to review retirement spending projections and the cost of living regularly to determine if updates are required. While part of calculating how much retirement income is needed includes educated guesses, having a well-rounded retirement plan can help prevent income gaps and protect a retiree from unexpected expenses. Meeting with a financial professional who is well-versed in various solutions, including life insurance and annuities, can be beneficial as you plan for the future and bring your retirement dreams to life.

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Let's work together. Now is the time to work with your financial professional to develop a strong retirement plan you believe in. In the meantime, see if our values of choice, focus, and flexibility align with yours. Visit midlandnational.com.

¹ Accelerated Death Benefits are subject to eligibility requirements. The death benefit will be reduced by the amount of the death benefit accelerated. Since benefits are paid prior to death, a discount will be applied to the death benefit accelerated. As a result, the actual amount received will be less than the amount of the death benefit accelerated. An administrative fee is required at time of election.

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