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# Writing Your Retirement Story — Five questions you should answer before you retire





# Question 1: What is one of the biggest threats to my retirement?

- **Market volatility** — While market volatility is always a potential concern for retirees, the timing of the downturn is most critical. If a significant downturn occurs in your investment portfolio early in your retirement years, it may be more damaging than one that occurs later. That’s because taking withdrawals in a down market erodes your portfolio by both withdrawals and low returns. This can make it difficult to rebuild wealth, even if positive returns occur later.
- **Spending behavior** — You may be spending more than you think. It’s important to keep a detailed list of current and expected expenses.
- **Inflation** — Inflation can erode the purchasing power of your money over time. Review your retirement income sources and determine which ones are inflation-adjusted (such as Social Security) and have the potential to maintain your purchasing power.
- **Unexpected costs/health care** — Health care costs are projected to grow faster than inflation. While your actual costs will vary based on your overall health and personal circumstances, it’s important to include a health care cost estimate in your retirement income plan.
- **Outliving your assets** — Your retirement could last longer than you think. When creating your retirement income plan, you should assume a long time horizon.

**Take action:**

There are a number of threats to your retirement security. What concerns you the most? Rank the following:

- \_\_\_ Market volatility
- \_\_\_ Spending behavior
- \_\_\_ Inflation
- \_\_\_ Unexpected costs, including health care
- \_\_\_ Outliving your assets

A comprehensive retirement income plan can address these threats and help you feel more confident that your savings will last throughout your retirement years.

**Did you know?**  
A 65-year-old can expect, on average, to live to age 86.8 for a female and 84.2 for a male

Source: [ssa.gov/planners/lifeexpectancy.html](https://ssa.gov/planners/lifeexpectancy.html)  
(May 18, 2023)

# Question 2: When should I begin taking Social Security?

## Social Security benefits can begin from age 62 – 70.

- **Age 62** — Minimum age to receive Social Security retirement benefits.
- **Age 65 – 67** — You will meet your Full Retirement Age (FRA) between age 65 – 67. See the chart below to calculate your FRA.

Year of birth	Full retirement age (FRA)
1943 – 1954	66
1955	66 + 2 months
1956	66 + 4 months
1957	66 + 6 months
1958	66 + 8 months
1959	66 + 10 months
1960 or later	67

Source: Social Security Administration.

- **Age 70** — For each year you wait to start benefits between your FRA and age 70, you will receive an additional 8% income. After age 70, it is no longer beneficial to continue delaying your benefit.

If you are single, your Social Security benefit options are fairly straightforward. The longer you wait, the higher your benefit. For married couples, divorced, or widowed individuals, the landscape is more complex with additional factors to consider.

### Did you know?

Claiming your Social Security benefits before your Full Retirement Age may result in a permanently reduced benefit for the rest of your retirement.

### Take action:

Steps you can take to start planning for taking your Social Security benefits:

\_\_\_\_ Determine your Full Retirement Age (FRA)

\_\_\_\_ Get a copy of your Social Security Statement (visit [ssa.gov](https://ssa.gov))

\_\_\_\_ Make sure your Social Security strategy aligns with your overall retirement income plan

\_\_\_\_ Meet with a Wells Fargo Advisors financial advisor for a complimentary analysis of the benefit scenarios available to you

*When and how* you choose to take your Social Security benefits can have a significant impact on the total benefits you receive over time. Financial advisors with Wells Fargo Advisors have access to robust software that can help analyze the Social Security benefit scenarios available to you and help you evaluate which one may best fit your personal circumstances.





# Question 3: What are my possible health care costs?

## Know your options before you retire

With people living longer, the cost of health care in retirement can be significant. It's important to carefully evaluate your options before you retire — and plan for medical expenses in retirement.

## Medicare starts at age 65

Virtually all U.S. residents who are age 65 or older qualify for Medicare. Unless you are disabled, your coverage cannot begin until age 65. Even if you take Social Security benefits at 62, you must wait until 65 for Medicare.

## Losing coverage before age 65

If you are thinking of retiring early or if you lose your job before age 65, finding health care coverage can be challenging, and it is certainly costly. This single risk can derail even the best retirement income plans well before retirement even begins.

### Did you know?

Four in 10 workers and three in 10 retirees are not confident their money will be able to keep up with inflation in retirement.

Employee Benefit Research Institute and Greenwald Research, 2023 Retirement Confidence Survey, EBRI Chartbook (Employee Benefit Research Institute, April 27, 2023)

### Take action:

Steps you can take to start planning for health care costs:

- \_\_\_\_\_ Reach out to your financial advisor to discuss your health care costs in retirement
- \_\_\_\_\_ Ask your financial advisor to get a personal health care cost assessment
- \_\_\_\_\_ Create a strategy for covering health care costs throughout retirement which could include personal insurance, employer-sponsored insurance, Medicaid or Medicare, and out-of-pocket costs

# Question 4: How much can I spend in retirement?

You may be familiar with one rule-of-thumb that suggests your expenses in retirement will be approximately 80% of your pre-retirement income. This may be a good starting point, but as you begin to think more seriously about retiring, it's important to get more precise in planning your budget and expenses. See the following steps to help you get started:

## 1. Write down your expenses

- Bucket your expenses into two main categories — essential (i.e., mortgage, food, medical expenses, etc.) and discretionary (i.e., travel, charitable contributions, entertainment, etc.). A Wells Fargo Advisors financial advisor can provide you with a *Retirement Expense Analysis Worksheet* to help you collect and categorize expenses.

## 2. Match income to expenses

- Align essential expenses with “fixed income” (e.g., Social Security benefits, income payments from an annuity or pension, etc.).
- Match discretionary expenses with “variable income” (e.g., portfolio income, rental income, etc.). While these income sources are seen as more reliable and may be less likely to fluctuate, they are not guaranteed.

## 3. Determine if there is a gap/surplus

- Now that you know your expenses and income, you can use this simple formula to determine your retirement income gap.

$$\text{Total income} - \text{total expenses} = \text{“the income gap”}$$

### Possible options to consider:

If income is less than expenses	If income is greater than expenses
1. Work longer (retire later)	1. Retire earlier
2. Spend less during retirement	2. Spend more during retirement
3. Save more while working	3. Spend more while working
4. Leave less to beneficiaries	4. Leave more to beneficiaries
5. Increase risk tolerance	5. Decrease risk tolerance
6. Withdraw from investment portfolio	6. Contribute to your investment portfolio

### Take action:

- \_\_\_\_\_ Write down your expenses into essential and discretionary categories
- \_\_\_\_\_ List all of your current and anticipated sources of income in retirement
- \_\_\_\_\_ Match expenses and income
- \_\_\_\_\_ Determine if your expenses will exceed your income
- \_\_\_\_\_ Evaluate your options based on your total income gap

### Did you know?

Taking your retirement savings as a whole, you can withdraw 4% annually (adjusted for inflation) and face only a minimal probability of running out of money over the course of a 30-year retirement

Source: USA Today, June 27, 2022

# Question 5: How should I invest during retirement?

One of the most important determinants of portfolio performance is strategic asset allocation, or how you have your money divided among stocks, bonds, and cash alternatives. So, determining an appropriate asset allocation based on your long-term goals, time horizon, and risk tolerance is an extremely important aspect in the overall planning process.

## Key drivers of portfolio return variability



**Sources:** “Determinants of Portfolio Returns,” Wells Fargo Wealth Management, November 2011; Morningstar Direct; Roger G. Ibbotson and Rex A. Sinquefeld, “Stocks, Bonds, Bills, and Inflation: Year-by-Year Historical Returns,” University of Chicago Press Journal of Business (January 1976); Standard & Poor’s; and Wells Fargo Wealth Management. **Tactical Asset Allocation:** Making short-term adjustments to asset-class weights based on shorter-term expected relative performance. **Strategic Asset Allocation:** An investor’s return objectives, risk tolerances, and investment constraints are integrated with long-term return assumptions to establish exposure to permissible asset classes.

*Asset allocation, including strategic and tactical asset allocation, do not guarantee investment returns or eliminate risk of loss.*

- **Diversification can help smooth out performance** — effective diversification combines investments that behave differently when held during changing economic or market conditions.
- **The importance of staying invested** — when markets decline, resist the temptation to exit the market. It’s virtually impossible to time the market so by exiting a declining market you may miss out on a subsequent recovery.
- **How much can you take out of your portfolio** — in addition to asset allocation and staying invested, the rate at which you withdraw assets from your portfolio is a key component to help ensure your assets last throughout your lifetime. Even small increases in your withdrawal rate can greatly decrease your odds of success.

## Take action:

- Review your current asset allocation with your financial advisor
- Consult with your financial advisor during times of market volatility before making any changes to your asset allocation
- Determine an initial portfolio withdrawal rate necessary to cover your discretionary expenses. Your financial advisor can help you evaluate what rate is appropriate and work with you to adjust over time

# Writing your retirement story with our LifeSync<sup>®</sup> experience

Every retirement is different, and yours will be yours alone — your unique story. We can help you write it by discovering what matters most to you and putting together a plan to help you achieve it. Because your retirement isn't your last stop; it's just the first chapter in a brand-new story.

Your advisor can help you define your unique retirement story with our LifeSync experience. LifeSync provides an approach to planning that syncs your financial objectives with your personal aspirations and values throughout the many moments in your life — including your retirement.

## Your LifeSync experience

- 1. Understand** — Uncover a broad picture of your life and what is important to you.
- 2. Plan** — Using industry-leading technology, consider all aspects of your financial situation to provide a plan that aligns with your values and evolves as life, goals, and interests change.
- 3. Propose** — Our deep subject matter expertise provides curated information, advice, and access to specialists and resources to help you make more informed decisions and explore more options.
- 4. Implement** — Advisors and a team of specialists help execute strategies and custom solutions to help make your goals a reality.
- 5. Revisit** — A plan is not a one-time event. We are here for the long term and will stay connected with you to ensure your plan reflects your life changes.



A Wells Fargo Advisors financial advisor can work with you to write your retirement story then create your unique path that aligns your financial objectives to your personal aspirations.



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