

# Understanding the 5 key retirement risks

Planning for the lifestyle you want in retirement

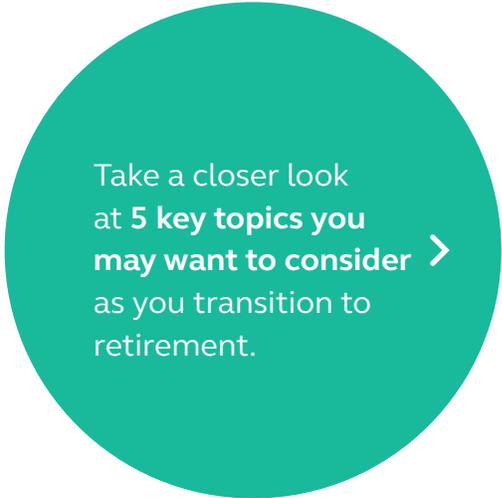
# Picture it... your retirement

You've worked hard to get here. Now it's time to do all the things you've been dreaming about the last 40 years. Just remember whatever you want to do, you'll need to make sure you've got the income to cover it.

During your working years, you focused on saving for retirement. But that's about to shift. In retirement you'll create your own paycheck from your savings. But how do you know how much you'll need?

## Expect the unexpected.

Life doesn't always go as planned. Things like unexpected health issues or declines in the market are bound to come up. But you can prepare by understanding important retirement considerations. Then put a plan in place to help ensure your income lasts throughout retirement.



Take a closer look  
at **5 key topics you  
may want to consider** >  
as you transition to  
retirement.

## Longevity

# 1 Plan for a long life

The good news is — people are living longer. According to the U.S. Census Bureau, there are nearly 2 million Americans over the age of 90, and 53,000 over the age of 100.<sup>1</sup>

With that comes the risk that you will live longer than your savings can support. It's important to consider how long you may live to help determine how long your income will need to last. Keep in mind you could spend 20 to 30 years or more in retirement.



Today there's a 55% chance that the husband or wife in a married couple age 65 will live to age 92.<sup>2</sup>



Everyone wants to live a long, healthy life. That's a great thing, but it's imperative for your money to last for the 30 or more years you may spend in retirement.

<sup>1</sup> U.S. Census Bureau - 2010 Census Special Report, Dec. 2012.

<sup>2</sup> Society of Actuaries, 2012 Individual Annuity Mortality Basic Table.

## Health care

# 2 Expect higher spending

Retirees today are more active and living longer than ever. But health care is one of the biggest expenses — and uncertainties — in retirement. Don't let health care coverage needs surprise you.

### Keep in mind:



\$275,000 is the amount a couple retiring at 65 today can expect to spend on healthcare in retirement. That includes premiums, co-payments, deductibles and out-of-pocket drug expenses.<sup>3</sup> Their average monthly health care expense is \$583.<sup>4</sup>



**Health care costs** are expected to increase by 5.8% each year — more than double the average rate of inflation.<sup>5</sup>



**Long-term care** is also a factor. On average, it currently costs \$83,580 a year for a private nursing home room.<sup>6</sup>

60%

### Medicare alone may not be enough.

It generally only covers about 60% of the cost of health care services. In addition, premiums and out-of-pocket expenses apply.<sup>7</sup> If you retire before age 65, you'll need to obtain private health care insurance or continue coverage through an employer's health care plan under COBRA.

<sup>3</sup> Lobosco, Katie, "Health care will cost couples \$275,000 in retirement." money.cnn.com, August 2017, <http://money.cnn.com/2017/08/24/retirement/health-care-cost-retirement/index.html>

<sup>4</sup> Lobosco, Katie, "Don't freak out about healthcare costs in retirement." money.cnn.com, December 2015, <http://money.cnn.com/2015/12/30/retirement/retirement-health-care-costs/>

<sup>5</sup> www.cms.gov, National Health Expenditure Fact Sheet, 2015

<sup>6</sup> "Costs of Care." LongTermCare.gov, February 2017, <http://longtermcare.gov/costs-how-to-pay/costs-of-care/>

<sup>7</sup> "EBRI.org Notes." EBRI.org, October 2015, [https://www.ebri.org/pdf/notespdf/EBRI\\_Notes\\_10\\_Oct15\\_HlthSvgs\\_DB-DC.pdf](https://www.ebri.org/pdf/notespdf/EBRI_Notes_10_Oct15_HlthSvgs_DB-DC.pdf)

## Public policy

# 3 Understand the current issues

Will new taxes or tax increases reduce your retirement income? Will Medicare continue in its current form? What is the future of Social Security?

No one can predict — with certainty — what our government will do in the future. All you can do is keep yourself educated and informed about public policy so you can make changes as necessary.



**Social Security will only replace a portion of your income in retirement.**

Currently, Social Security replaces about 40% of pre-retirement earnings for the average earner. But this may change: **In 2021, the Social Security Administration will begin paying more in benefits than it collects in taxes.**<sup>8</sup>

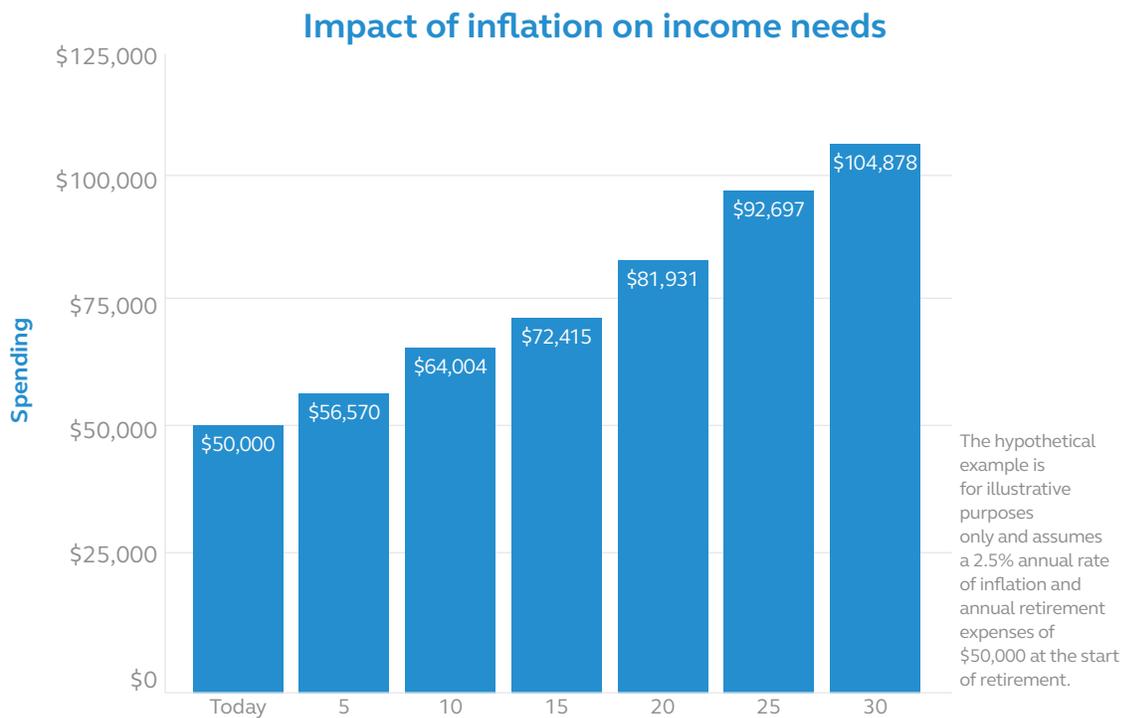
<sup>8</sup> [www.motleyfool.com, 2017, https://www.fool.com/retirement/2017/04/24/social-security-is-designed-to-replace-this-much-o.aspx](https://www.motleyfool.com, 2017, https://www.fool.com/retirement/2017/04/24/social-security-is-designed-to-replace-this-much-o.aspx)

## Inflation

# 4 Consider your purchasing power

Inflation equates to a loss of spending power. No matter what your lifestyle in retirement, inflation can erode your buying power over 20 or 30 years.

Your annual income needs could double over the course of retirement. Suppose you need retirement income of \$50,000 a year, today — and inflation averages 2.5% a year going forward. In 30 years you'll need more than \$100,000 a year to buy the same goods and services you do today, to maintain the same standard of living.



During your working years, if you received pay raises, they generally covered the cost of inflation. But without a paycheck, inflation poses a bigger threat in retirement.

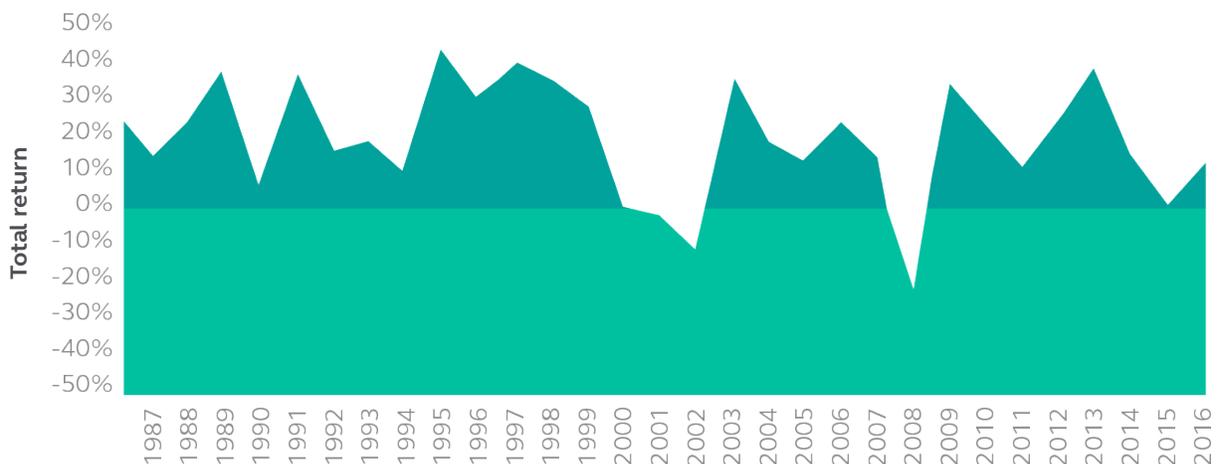
## Investing

# 5 Weigh the impact of investment risk

The market continually rises and falls, but a down market when you're in retirement can reduce your income and affect how long your money will last. A good defense against market volatility includes a financial plan with a long-term view and a diversified portfolio.

The chart below shows the risks that accompany investing in the market — you invest in the market to help your money grow, but along with that comes the “cost” of those potentially higher rewards in the form of risk.

S&P 500 Composite Total Return 1987 – 2016



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Consider how much risk you're willing to take on to meet your personal goals and continue to grow your nest egg. Spreading savings across a range of investments can help reduce the impact of investment risk.

Take action

# Start planning today

The unexpected can happen in retirement. That's why you'll want to plan for it. With the right plan to transition into and through retirement, you can help mitigate some risks and ensure you'll have income to last for the rest of your life.



A financial professional can help you:

Envision your retirement goals

Determine your income needs

Assess your sources of guaranteed income

Identify your assets available to fund retirement income

Create and implement a plan

Help you monitor your retirement income plan on an ongoing basis

Want help with your plan? Meet with a financial professional to put your retirement income plan together and review it on a regular basis.



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08/2017 | t170919090c | © 2017 Principal Financial Services, Inc.

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