Retirement Planning

Get prepared for retirement at any age with our guide to saving and spending

Introduction

The word “retirement” tends to conjure up a certain set of buzzwords: pension plan, 401(k), Social Security, golden years. But what do these words really mean for the modern day retiree?

Retirement today is not what it used to be – far from it, in fact. Gone are the days of defined benefit plans (think old-school pension plans) that provided a guaranteed stream of lifetime income. Fewer and fewer employers are willing to take on the burden of their employees’ retirements, therefore more and more workplaces are offering defined contribution plans instead. With these plans, such as 401(k)s, you, the employee, take on the burden of your retirement finances. Or better yet, you’re in control.

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Being in control of your finances is a good thing. Pension plans and Social Security were never meant to compose all, or even most, of your retirement income. But with more control comes greater risk and responsibility. A lifetime stream of income is no longer guaranteed under these plans. The durability of your income depends on how much you save, how much you spend, how the stock market performs, and how long you live. With the substantial gains being made in the length of the human lifespan, the golden years of retirement are becoming the golden decades.

So what are you to do when your employer passes the burden of retirement planning onto you, when lifetime income is no longer guaranteed, and when you’re left to stumble through numbers, abbreviations, jargon, and dollar signs to plan a retirement that could potentially last 30 years?

That’s where this guide comes in. With a new retirement landscape comes a whole new retirement toolbox, full of technology, data, and annuities that enable smarter retirement planning. Read on to prepare yourself for a long and comfortable retirement.

Planning For Retirement

Planning for retirement is a multi-faceted process, provoking questions like "how much can I afford to spend each year" and "when should I start taking Social Security?" Below we've provided a quick run-down of some key retirement topics.

Longevity

We'll start with a loaded question: how long will you live? Needless to say there's no definitive answer to this one. Your longevity depends on a number of variables, including family history, health, and lifestyle. Our longevity calculator, which was developed by professors at the University of Pennsylvania, offers a estimate, but of course, no one can predict the future.

Use our website's Longevity Calculator to get your life expectancy.

However, one fact applies to all of us: the average human lifespan is growing, and with it the span of one's retirement is, too. That fact comes with a number of implications, the most obvious being that a longer retirement calls for more available funds during your retirement. It also means that those preparing for retirement today need a different strategy than that of previous generations.

Social Security

Let's talk Social Security. With the decline in employer pension plans, Social Security is becoming increasingly important for retirees, often a predominant source of retirement income. It's a simple enough system: you work at least 10 years, paying into Social Security to qualify for benefits in retirement. Your benefit level is determined using the average of your highest 35 years of earnings and a formula. There's one big decision for you: when will you begin taking your benefits? There are three key ages: 62, full retirement age, and 70 years old. Here's the deal with these three ages:

- **62**: Collecting retirement benefits at age 62 is considered early, and, while it makes sense for some people, it comes at a cost. Taking benefits this early means a reduction in those benefits of about 25% relative to someone who waits until full retirement age to collect benefits. And this reduction lasts for the rest of your life. So if you can, wait.

- **Full Retirement Age**: How long should you wait? At least until your full retirement age, which is between 66 and 67, depending on the year you were born. At this point, you're able to collect full retirement benefits for the duration of your life.

- **70**: Finally, good things come to those who wait. Holding off on collection until age 70 opens the door to delayed retirement credits – increased income for every month you postpone benefit collection from full retirement age until age 70. For most people this amounts to about 8% per year. With increasing longevity and longer retirements, that 8% can be key.

Spending

As important as the stream of money coming in is, the money you spend in retirement is important, too. It's hard to predict how much money you'll need in retirement, and there are a number of approaches out there. At the end of the day, the dollar figure you think you can get by on in retirement is a personal choice, but we've outlined a few tips below:

- For a quick approach, experts estimate that you'll need 60-85% of your current household income to live comfortably during retirement. Of course, you have to consider inflation, too.

- Keeping in mind that during your retirement, you probably won't be saving money or paying FICA, you can think of your retirement income as being equal to your gross income today, less all savings and all FICA taxes.

- Remember to consider where your retirement income will come from. For example, if you determine that you require $50,000 per year in retirement income, and that $25,000 will come from Social Security benefits, the other $25,000 must be accounted for elsewhere – from investments, income annuities, or other sources. More on this later.

Like we said – retirement planning is tricky, full of questions and lacking black and white answers. But we're here to guide you through, step by step. Read on to figure out what to do during your working and saving years – a crucial time for future-retired you.

Working & Saving

A comfortable retirement is in the making long before it's time to retire. Every day you head to work and every penny that you put away lays the foundation for your golden years. What's the best way to approach the working and saving years? There's no one right answer. But the important thing is to not worry about the when of retirement, or the dollar amount of retirement savings. The only things you need to focus on are simply working and saving.

Of course, having a strategy, or at least arming yourself with the knowledge of what saving tools exist, doesn't hurt. That's why we're here to give you a lay of the land.

Social Security

Let's start with a basic source of retirement income: Social Security. We talked a lot about various strategies and stipulations of Social Security benefits, but during your working years it's important to be conscious of your Social Security credits. These credits are the "building blocks" of your benefits. Without enough credits, the Social Security Administration (SSA) has no obligation to deliver your monthly benefit check.

So how many credits are enough? For retirement benefits you need 40 credits. At maximum, you can earn 4 credits per year, meaning that 10 years of work could earn you an adequate amount of retirement credits. For every $1,320 (as of 2018) you make and pay towards Social Security taxes, with slight adjustments to this figure for inflation, you earn 1 credit, until you max out your 4 credits per year. These credits are earned essentially effortlessly and stay with you forever regardless of breaks in employment.

To figure out where you stand, sign up for My Social Security (https://www.ssa.gov/myaccount/), and take a look at your statement.

Retirement Accounts

Onto the trickier stuff. As we've mentioned before, Social Security alone just won't cut it. The rest of your retirement income will come from key retirement accounts and investments. There's a wealth of information out there regarding where to put your money, so we're going to break it down for a few key retirement accounts:

Employer Plans

Think 401(k)s and 403(b)s. You pay into these programs directly from your paycheck, automatically. The upsides? Contributions are pre-tax, providing a tax deduction that lowers your taxable income. Tax deferral until retirement means faster and more significant growth of your savings. Even better, some employers will match your contribution to the defined contribution plan.

Traditional IRAs

Similar tax-deferred growth is available outside of employer plans via traditional IRAs. With an IRA you direct pre-tax income into an account, allowing the sum to grow tax-deferred until withdrawal during retirement. In some cases, your IRA contributions are tax-deductible – that is if your employer doesn't offer a retirement plan or if your adjusted gross income falls below a certain level specified each year by the IRS. One thing to note is that there are contribution limits, adjusted with inflation each year.

Roth IRAs

A Roth IRA functions similar to a traditional IRA except that contributions are made on an after-tax basis. What's unique here is that the ability to contribute to a Roth depends on your level of income. If your modified adjusted gross income is below approximately $132,000 (or $194,000 for joint filers), then you're eligible for a Roth IRA. The pros? Tax-free growth of your contributions, and no taxes on earnings once you begin withdrawing. And, with a Roth there are no mandatory distributions, so you take the money out when you need, and you let it grow as long as you want.

Annuities

Annuities are another option for retirement savings as they provide tax-deferred accumulation as long as withdrawals aren't made before age 59½. However, one annuity can differ substantially from another. For example, a variable annuity is purchased for accumulation, offering equity market exposure while limiting downside, but are too expensive in Blueprint Income's opinion. On the other hand, income annuities are used to create steady guaranteed income – like a pension – that lasts your entire life. These products are designed to help you deploy your assets in retirement but offer no liquidity or access to funds. We'll talk more about annuities later.

Here's a summary of key tax-advantaged retirement savings vehicles available to you:

Plan	Who's Eligible	Contribution Limits*
401(k)	Private company employees	$18,500
403(b) & 457(b)	Employees of nonprofits and state/local governments	$18,500
Simple IRA	Small business employers and employees	$12,500
Solo 401(k)	Sole proprietors and their spouses	25% of compensation plus $18,500, up to $55,000
Traditional IRA	Everyone not covered by an employer retirement plan, and those covered making less than $73,000 ($121,000 for a couple)	$5,500 ($6,500 if 50 or over)
Roth IRA	All earners making less than $135,000 ($199,000 for a couple)	$5,500 ($6,500 if 50 or over)
Annuities	Everyone	N/A

* Contribution limits as of 2018.

Investments

When it comes to retirement planning the big investing question is stocks vs. bonds. The answer is both, but the balance is up to you and depends on your risk aversion. Bonds are good for safety and stability. They're a great crutch during rough times, and good for someone who needs cash within the next 5 years. But retirement investing is a long-term goal – growing longer and longer with our increasing life expectancy. Throwing all your money into bills and bonds won't get you the big growth that stocks supply. Though the stock market may be unpredictable, by and large it has historically moved upward. With the high average return of stocks, that's where you'll get the biggest bang for your invested buck over the long-term.

Real Estate

A final source of money to consider in retirement is your home. Investing in real estate and paying off your mortgage before your retire means substantially reduced living experience in retirement. Plus, the equity in your home is an asset which can generate income, such as through a reverse mortgage.

Assets vs Income

Let's fast forward through the working and saving years and hit play at retirement. Once you get into retirement, it's time to turn your hard earned assets into income. Why? Assets run out. Lifetime income doesn't.

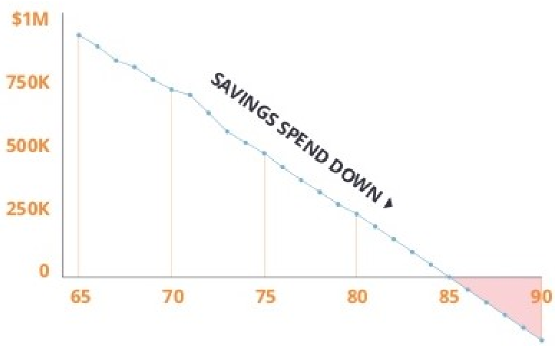
What are your options when it comes to retirement income generators? There are three common routes people take: you could invest your savings and live off the money from the interest and dividends, you could invest your savings and take out systematic withdrawals, or you could buy a lifetime income annuity from an insurance company.

We want to focus on lifetime income annuities, also known as longevity annuities, the fast growing replacement for pension plans in the face of self-insurance. Self-insurance in retirement is the idea that people are insuring against longevity risk themselves, that is, the risk that of living longer than expected and not having the savings to support it. The need to self-insure only came out of the decline in pension plans and is no longer necessary with the rising availability of income annuities.

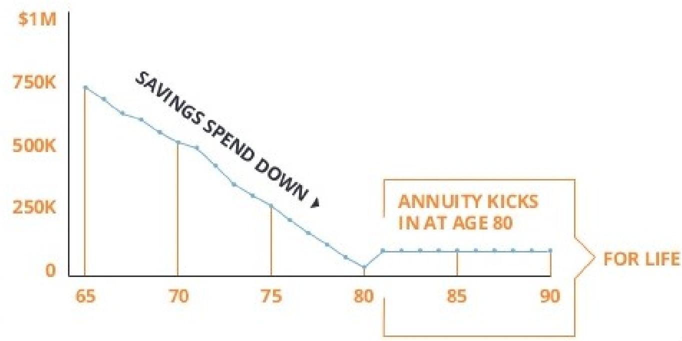
Similar to pension plans, where you were able to shift longevity risk onto your employer, longevity annuities shift the risk of living longer than expected to an insurance company. Insurers are able to pool this risk and use the markets to protect themselves in ways you simply can't do on your own. When you purchase an annuity, you pay a lump sum upfront, then for the rest of your life you receive a regular paycheck. Essentially, you're buying a pension plan for yourself. Furthermore, you can tell the insurance company when you want to start receiving your checks, allowing you to wait until you need it, rather than blowing your savings too soon.

So what are the major pros of income annuities, and how do you know if an annuity is right for you? We'll start with the pros. When you purchase an income annuity, you receive a guaranteed stream of income that provides you with something invaluable: peace of mind. With an income annuity, you can spend your retirement savings with the promise of income on the horizon.

Strategy: Betting you don't live too long.



Strategy: Try to live a long and healthy life knowing you've protected yourself if you do.



Paying for security later on gives you more freedom to enjoy your hard earned savings now. But remember: annuities are a form of insurance, not an investment. They won't yield the high financial returns of stocks, but they'll provide financial and mental comfort.

When it comes to determining if purchasing an annuity is the right move for you, we have a few tips:

- Typically, you want to wait until you're at least 45 years old to purchase
- Make sure you have enough money saved for emergencies, outside of the money you annuitize
- If your health is below average, and you're less concerned about protecting against longevity risk, an annuity purchase may not make sense for you
- If you're looking to pass significant money onto heirs, you must factor that into your annuity purchase decision

I want to plan for retirement responsibly, but I don't want to have to think about it all the time.

I want to make sure I have a paycheck in retirement that covers my fixed expenses.

I'm looking for a financial product that rewards me for being healthy.

I want to diversify my portfolio and protect myself against longevity risk.

Protecting Your Longevity

We mentioned the term ‘longevity risk‘ before – the risk that you live longer than you expected, perhaps longer than you planned for financially. With average human life expectancy climbing higher and higher each year as retirement age remains around 65-years-old, it’s becoming increasingly important for people to take action when it comes to long-term financial planning. We’ve outlined a few tools below to help you protect yourself against longevity risk.

Social Security

Social Security provides a lifelong stream of income, but unfortunately, in most cases, the benefits alone aren’t enough to sustain a long and comfortable retirement. Nevertheless, Social Security is an important source of income in retirement. In short, you pay into Social Security during your working years, then once you reach age 62 you can start collecting benefits. They key is, however, to try to wait until full retirement age, 66 or 67 depending on when you were born, to begin taking out benefits, otherwise your benefits will be reduced for the rest of your life. Bonus points if you wait until age 70 to withdraw benefits, as you’ll receive an 8% increase to your Social Security income for each year you delay claiming.

Income Annuities

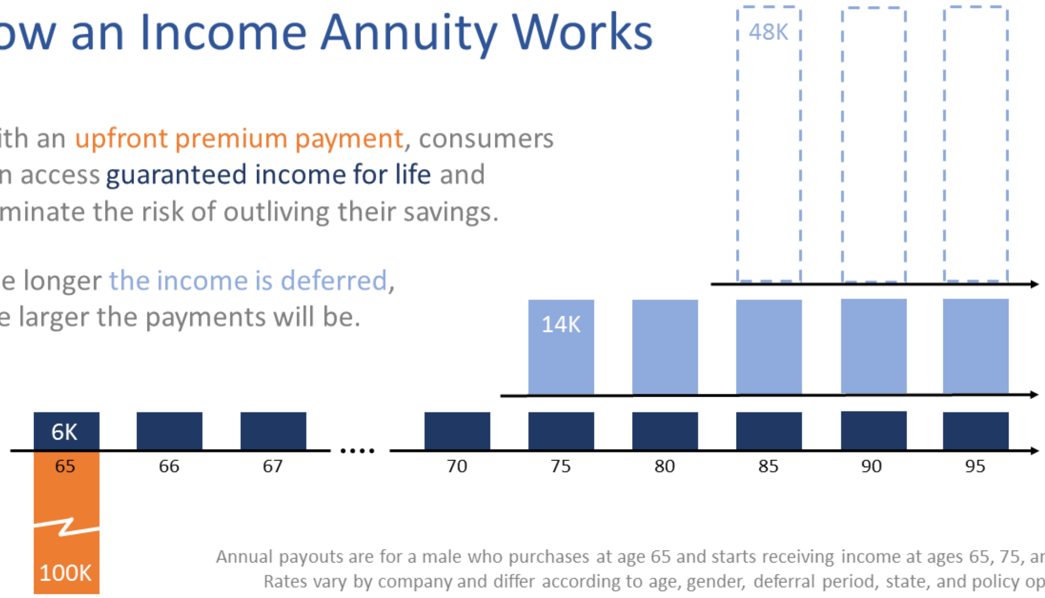
Income annuities are another way to guarantee a lifetime stream of income during your retirement. You pay a lump sum upfront to purchase your annuity from an insurance company, then the insurance company sends you a series of payments for the rest of you life.

Income annuities come in two forms: immediate or deferred. With immediate income annuities you begin receiving payments immediately after purchase, whereas with deferred income annuities you can choose to begin receiving payments at a date much later on. These annuities provide a financial backstop that allows you to spend your retirement savings without fear of outliving your money. They also allow you to pool longevity risk, something other financial instruments, such as bonds do not. One thing to keep in mind: income annuities have no cash value, therefore they are not a liquid asset, meaning you can’t access the money if you need it in an emergency.

How an Income Annuity Works

With an upfront premium payment, consumers can access guaranteed income for life and eliminate the risk of outliving their savings.

The longer the income is deferred, the larger the payments will be.



Annual payouts are for a male who purchases at age 65 and starts receiving income at ages 65, 75, and 85.
Rates vary by company and differ according to age, gender, deferral period, state, and policy options.

Qualified Longevity Annuity Contracts (QLACs)

A QLAC is a type of deferred income annuity that comes with extra tax-deferral benefits. You can transfer the lesser of $125,000 or 25% of your qualified retirement account to a QLAC, which will then generate a future lifetime income stream starting between ages 70½ and 85. During the period in which income is deferred, the money used to purchase the QLAC is excluded from the required minimum distribution (RMD) calculation, a required annual withdrawal retirees must take from retirement accounts once they turn 70½ years old.

Real Estate

Real estate property can be a great source of income to supplement your retirement savings. Let's say you own a vacation house in addition to your home. You could rent the second home out to a tenant, establishing a source of monthly income. However, needless to say there are a number of implications of home ownership and many drawbacks to playing the role of a landlord. These are important considerations to make when considering a second home as a source of retirement income.

Managed Payout Funds

Managed payout funds are a way of providing a steady monthly income that keeps up with inflation. The allocation of payments may change over time to avoid eating away at the principal. This brings us to a downside of managed payout funds: they don't provide a guaranteed lifetime stream of income. They can also expose investors to downside risk due to high allocations toward equities. Nevertheless, this is another tool for generating retirement income.

4% Rule

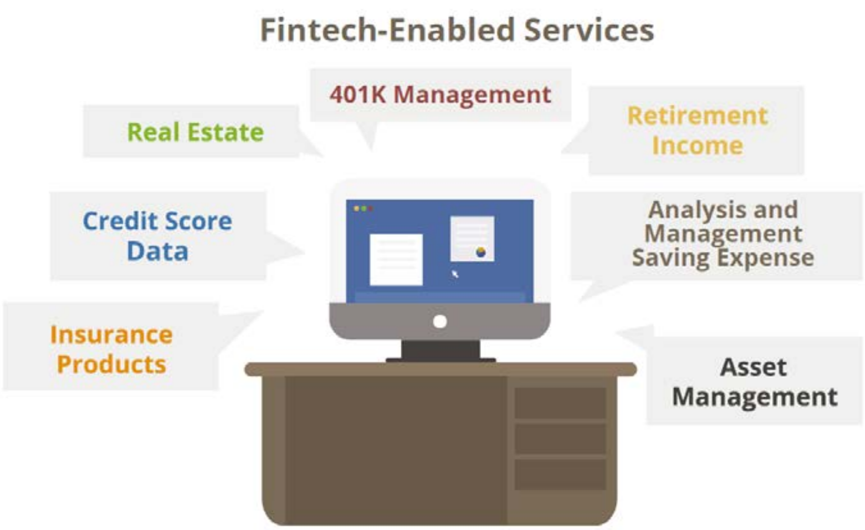
The 4% Rule was born in the '90s when financial planner William P. Bengen concluded that someone who started withdrawals between 1926 and 1976 could make the portfolio last for at least 30 years by taking an initial 4% withdrawal and adjusting it for inflation each year. A simple rule if you're looking to live off your own investments. However, over time, particularly after the market collapse in 2000, and again in 2008, researchers fear that 4% may be too generous a rule. Instead, people are opting for dynamic withdrawal strategies that evolve alongside the market.

Reverse Mortgages

Reverse mortgages, despite some heat in the media, can provide retirees with additional retirement income, when used correctly. They allow homeowners over age 62 to use their home equity as a tax-free source of funds. Generally, the older you are, the more value you can generate from your home, and the lower the interest rate, the more money you can borrow. Though, keep in mind, there are limits to withdrawals in the first year. However, reverse mortgages are not without a fair share of fees and rules, one being a strict deadline for pay off once the last surviving borrower passes away or moves out of the home.

Technology & Retirement

People tend to think of technology as an exclusively millennial playing field. Don't be fooled. There's plenty of simple tech-tools to be used by the 50+ population, as well. Fintech, the intersection of finance and technology, has a number of fundamental advantages for people of all ages, with various goals, looking to manage their personal finances. For starters, the introduction of robo-advisors has improved access to financial services and made it cheaper as well. Another advantage is the data-driven processes employed by fintech products, which can help those on the cusp of retirement systematically transition from wealth accumulation to wealth preservation.



While fintech has advanced a number of financial services, we want to focus specifically on how fintech products can help you navigate your retirement planning with ease.

Retirement Savings Fee Management

A popular pain point when it comes to retirement plans is the lack of clarity around costs. By law, retirement plans must spell out their costs, but with the complex and unfamiliar jargon, it can sometimes feel like you're reading a foreign language. Being that retirement can last 30 years, your fees can really add up. That's not to say that all fees are bad, rather that you should simply know what you're paying for and how much before you make any decisions.

Below, we've highlighted a few products that can help you evaluate what you're paying, as well as recommend rollover options.

FeeX uses technology to spell out all of those hidden costs and then recommend cheaper alternatives for users with high investment fees. FeeX offers a 401(k) rollover comparison tool, as well as a fee-assessment service that helps users recognize, evaluate and avoid fees via more cost-effective alternatives. FeeX is free to users but does get paid on referral fees from fund providers.

BrightScope provides ratings of retirement plans and helps match customers to the products that best meet their long-term needs. Is it too late to roll your plans and see significant savings by the time you are approaching retirement? BrightScope's own data suggests a 50-year-old user who lowers 401(k) fees by 2% can increase total savings at age 65 by more than 30%.

Retirement Income

Most fintech services, and financial advisors, are focused on the critical task of managing investments, building wealth, and measuring spending habits. These are hugely important areas. But, what about guaranteeing income in retirement? Longevity annuities are underutilized insurance products that near-retirees and early retirees can buy now to receive a guaranteed stream of income into advanced age. They provide a backstop to protect retirees from outliving their savings, and there's a broad consensus among government officials and economists that Americans should be using them more frequently.

But, the purchasing process is lengthy, confusing, and rife with bad incentive structures. This is why we've created Blueprint Income to fix it. We've built the first tech-enabled platform to research, compare and purchase income annuities. Blueprint Income prompts users with a set of detailed questions, and provides a series of automated annuity quotes from as many as nine carriers. And, if an annuity does not make sense for your circumstances, at Blueprint Income, we will gladly tell you so.

With the ever-evolving technology in our increasingly digital age, the fintech market promises great growth.

Retirement Checklists

With all the moving pieces in retirement planning we wanted to give you a quick "to-do" list for what your goals should be in the decades leading up to retirement, and into early retirement. Here it is:

In Your 20s & 30s

- Begin saving at least 10% of your salary – though if you can scrape 15% together that's even better! If you're not saving regularly, you're missing out on tax incentives and the power of compounding interest.
- Look into employer plans, like a 401(k) or something similar. That's the best place to start when it comes to saving. If your employer doesn't offer some sort of workplace plan, consider a traditional or Roth IRA and contribute the maximum. Company matches and tax-deferred vehicles are a great foundation of retirement planning.
- Find a simple and low-cost investment plan. A simple, streamlined investment portfolio is easier to manage and less likely to yield major problems. All you need is a diverse, low-cost index mix of stocks and bonds that line up with your risk aversion and your investment timeline. In your 20s and 30s that mix will look something like 80-100% in stocks and 0-20% in bonds.
- Relax a bit. If you're saving regularly and investing simply and smartly, then you're doing your part for these decades. All you've got to do is check in from time to time and keep an eye on your progress.

In Your 40s

- Keep on saving! Earnings tend to rise between age 35 and 45, but, for many people, expenses start to rise around this time, too, as families grow. Saving early and often is key to a comfortable retirement.
- Remember to keep your investment portfolio diverse. Don't shy away from stocks just because they hold more risk than bonds. They also hold higher long-term gains, and the short-term losses are often recoverable.
- Avoid high fees or complex products. As you start to plan for retirement you'll find a variety of products at your disposal. Chances are, anything that has steep fees or leaves you scratching your head isn't worth your time or money.

- Eliminate credit card debt. Credit card debt is a like a financial black hole, with extremely high interest charges eating away at money that could, and should, be going towards a retirement account, an emergency fund, your mortgage, or at least something more enjoyable than credit card debt!
- Make sure both spouses are planning for retirement. If your spouse has not begun planning for retirement, open an IRA in his/her name. This rings true even for a stay-at-home spouse, thanks to the benefits of Roth IRAs for lower-income individuals.

In Your 50s

- Keep up the saving. It's still vitally important to your goal of a happy retirement. Consider adjusting your portfolio, as well, if you need to make up any progress.
- Have a plan for retirement spending. That is, how much you wish to save for retirement and what portion of your retirement expenses will be covered solely by your savings and Social Security. Careful of a common mistake many pre-retirees make: retirement doesn't always mean a drastic drop in expenses. Think more like 85% of your current expenses. And don't forget about health care costs, too!
- Lock in some guaranteed retirement income. As we mentioned before, pension plans have gone the way of the dinosaurs for the most part. But deferred income annuities are a great alternative that you can purchase for yourself. Like pensions, they promise a guaranteed stream of income that will last as long as your retirement does. While an annuity doesn't make sense for everyone, we can help you decide if it's right for you!
- Diversify out of your company's stock. Consider no more than 15% invested in your employer's stock, that way if the company goes under, you're just out a job, not all your savings.

In Your 60s

- Revisit your retirement plan. It's important to check your progress and priorities as you age. For example, as you get older, chances are your health care costs will rise, and this needs to be factored into your retirement finances. We address this a next in the Healthcare Costs in Retirement section.

- Consider a deferred income annuity, if you haven't done so already. DIAs, also known as longevity annuities, allow you to convert your savings to a guaranteed income stream that starts when you retire and continues for as long as you live. By converting a portion of your savings into income, you've ensured a minimum quality of life in retirement and also made it easier to measure your spending abilities.
- Review the rules and regulations for Social Security and IRAs. In short, you can begin taking out Social Security benefits at age 62, but your benefits will be lower as a result. At ages 66 or 67 (depending on when you were born) you can take the full benefits, but waiting until age 70 will get you even more. For IRAs, keep in mind there are required minimum distributions (RMDs) starting at age 70½.
- Make the big home repairs now. Remember, you're home can be an asset during your retirement if you choose to sell. Replace the water heater, fix the roof, or even buy yourself a new car right now. The point is, make these big expenditures now while you're still earning money.

In Your 70s

- It's not too late to protect against longevity risk. Eliminate some uncertainty about how long your money will last through the purchase of an immediate income annuity (SPIA) or a deferred income annuity (DIA). Both take a lump-sum premium from you and convert it into a steady, guaranteed paycheck that will last as long as you're alive, either starting immediately or later in the future.
- Defer your RMDs if you don't need them. By now the required minimum distribution (RMD) rules will be in effect for your IRA and 401(k). If you don't need the full distribution now and are burdened by their associated taxes, think about using a Qualified Longevity Annuity Contract (QLAC) to defer a portion to as late as 85.
- Consider adding risk to your portfolio. That is, starting with a small percentage of equities and adding more as you move through retirement. When you first enter retirement your principal is at its biggest, so you want to protect it by minimizing risk. Keep a chunk of your money in bonds at this point. But as your retirement continues, think about increasing your portfolio percentage in stocks from, say, 30% to 60%. Exposing yourself to market upside again works particularly well if you've already created an income floor for yourself through an income annuity.
- Enjoy yourself! You've worked hard to make it here, and if you've been planning and saving along the way, you can reap the rewards of a comfortable, happy retirement.

Unique Challenges For Women

Around the world, women have greater life expectancies than men do. The cause of this life expectancy gap is complicated, and likely not driven by one single thing. There are differences in disease development and prevalence, differences in stress and exposure to danger in the workforce, and a number of other possible causes of the gender gap in longevity. Although both genders are making great gains in longevity, and are, therefore, experiencing longevity risk, women are finding themselves facing a number of unique hurdles in retirement:

- Women tend to earn less money than their male counterparts. Couple that with a greater life expectancy, and single women are left having to make less money last longer.
- Even for married women, making their money last after their husbands have passed is difficult. Consider the possibility of steep health care costs for the husband prior to his death, along with the woman's health care costs.
- In some cases, but not all, women tend to give the role of financier to their husbands. This comes with a couple of implications. First of all, if a woman's husband passes away before her, she may be completely in the dark about her financial situation. Secondly, if the husband was handling retirement planning completely on his own, the unique insurance needs of his wife may have been overlooked.
- When a woman's husband passes away she is suddenly deprived of the benefits of his Social Security and pension plan, but still must plan on living about five years longer.
- High divorce rates mean that a number of women are left to cover 100% of their expenses on their own, often lesser, income. It also can spell trouble if the woman had not independently thought about retirement planning prior to her divorce.

The average American woman on the brink of retirement will live to be about 89 years old. In order to fund her retirement, she'll have to decrease her spending by about 20% each year. That's a big cut, but that's not the only option. Women place a premium on certainty, and that's exactly what a longevity annuity provides: certainty that you won't blow through your savings during a long retirement, but instead will have a lifelong paycheck.

All in all the universal gain in longevity is an incredibly exciting thing! It's simply important to be on top of personal finances and retirement planning options.

Healthcare Costs in Retirement

Health care is a major expenses that cannot be overlooked in your retirement planning. A common misconception is that if you're a healthy individual – you eat well, you don't smoke, you exercise, all that good stuff – you don't need to consider health care costs as much as your less healthy counterparts. Quite the opposite, actually. On average, a healthy individual will incur greater health care costs over his or her retirement, as he/she will likely lead a longer life, and with aging comes inevitable health care costs.

So what can the healthy individual who's doing everything right do to navigate future health care costs? Here are a few tips:

- Try to consider what hypothetical complications you may run into with your health in the future. Consider family history, diet, exercise level, and habits. Don't get caught up solely in high-cost disease treatment. Smaller ticket items such as hearing aids or physical therapy add up fast.
- Take a look at you health coverage and retiree health benefits before you need them. Don't worry if you don't have a workplace plan, or if you lose your plan upon retirement. You can always use the Health Insurance Marketplace (https://www.healthcare.gov/retirees/) to find a plan.
- Don't forget about Medicare – the federal health insurance program for people aged-65 and up, as well as certain disabled and sick younger people. Medicare has four parts:
    - **Hospital Insurance**: Covers inpatient hospital care, care in a skilled nursing facility, hospice care, and certain home health care.
    - **Medical Insurance**: Covers certain doctors' services, medical supplies, preventive services, like vaccines, and outpatient care.
    - **Medicare Advantage Plans**: Contracts with Medicare to provide your hospital and medical insurance, and often prescription drug coverage, too. This type of plan includes Health Maintenance Organizations, Preferred Provider Organizations, Private Fee-for-Service Plans, Special Needs Plans, and Medicare Medical Savings Account Plans.
    - **Prescription Drug Coverage**: A feature of Original Medicare, some Medicare Cost Plans, some Medicare Private-Fee-for-Service Plans, and Medicare Medical Savings Account Plans. Private companies and Medicare Advantage Plans typically offer similar coverage for prescription medications.

The Future of Social Security

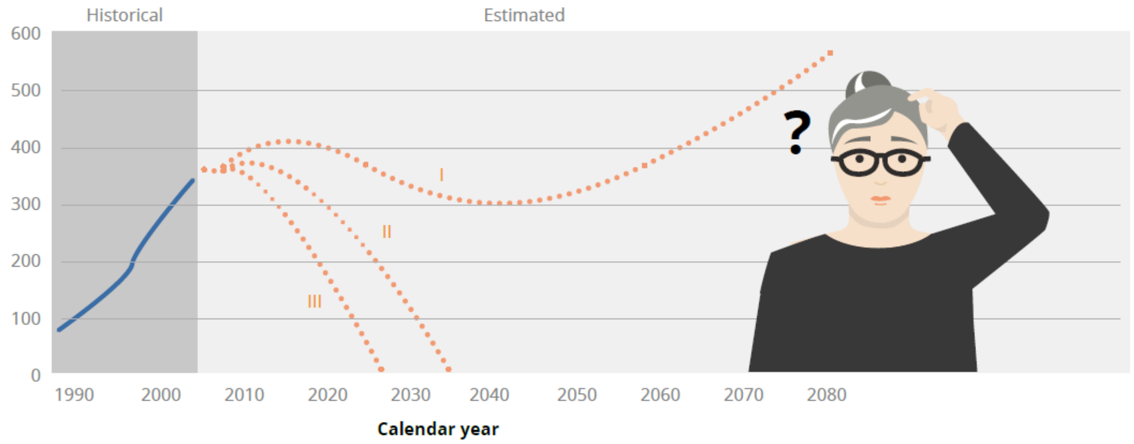
For many of us, Social Security makes up a significant portion of our retirement income plan. But, we've heard concerns raised about its long term viability and potential interventions that will be required to keep it alive. Based on the history of the program and the government's commitment to provide support to the elderly and disabled, we believe that Social Security will remain an important source of retirement income in the future. The question is then not a matter of existence but instead one of value. That is, can we expect Social Security benefits to continue according to today's trajectory, or will they be reduced in the future?

Solvency

First, let's take a look at the financial status of the Social Security program. There are three important drivers: tax revenue, benefits, and the trust funds. To fund the Social Security program, individuals and employers are taxed a combined 12.4% per year, as stipulated by the Federal Insurance Contribution Act (FICA). The revenue generated by these taxes is used to cover the Social Security benefits owed to Americans each year. If the tax revenue is insufficient, or less than the benefits, in any given year, the trust funds are available to pick up the difference. Ultimately, the financial status of the program is measured by its solvency, which is the ability to draw on the Social Security trust funds to pay full benefits.

During years in which tax revenue exceeds benefit payments, the difference is deposited into the trust funds and they increase in size. The opposite is true when benefits owed exceed tax revenue, at which point the trust fund is drawn down to cover the difference. The latter occurring in any given year is not necessarily a problem, unless it is projected to persist long into the future. Eventually, if benefits are consistently greater than revenue, the Social Security trust funds risk being depleted. Reports from the last five years have indicated that the combined old-age, survivors, and disability insurance (OASDI) trust funds are projected to run out between 2033 and 2037. At that point, we'd be relying only on Social Security tax revenues, which would cover 75-80% of benefits owed. The actuaries at the Social Security Administration have also outlined alternative scenarios, ranging from trust funds being depleted even earlier to not being depleted at all.

Combined OASI and DI Trust Fund assets as a percentage of program cost, 1990-2008, projected under alternative assumptions, 2009-2085



Source: *2009 Social Security Trustees Report,* Figure II. D6 and Table IV.B3.
Notes: Alternative I = low-cost assumptions; alternative II = intermediate assumptions; alternative; III = high-cost assumptions.

Assuming the more favorable scenario doesn't materialize, ensuring benefits are fully payable and avoiding depleting the trust funds would require making changes to the law.

Amendments To Social Security Act

Absent experience deviating significantly from economic and actuarial assumptions (such as birth rates, workforce participation, longevity, etc.), the Social Security trust funds are projected to be depleted by 2037. At that point, Social Security taxes would be the only source of revenue available, enough to cover only 75-80% of full benefits. Preventing this means making changes to the law, either in the form of higher taxes or lower benefits.

Looking back at the history of Social Security, full benefits have always been paid in a timely matter since the program was created in 1935. At times, this has required amending the Social Security Act, such as in 1977 and 1983. In 1977, changes were made to the way benefits are indexed from one generation to the next. And, in 1983, the full retirement age was increased from 65 to 67, and taxation of benefits was introduced.

Within the next 20 years, we should expect to see more amendments to the Social Security Act. While nothing has been decided, here are some options being considered:

- Reduce the annual Cost of Living Adjustment
- Slow down growth of benefits from one generation to the next
- Increase the full/normal retirement age and/or the earliest eligibility age.
- Reduce benefits for family members
- Increase payroll taxes
- Allow trust funds to be invested in equities and corporate bonds instead of only government bonds
- Increase taxation of benefits or reduce tax breaks at lower-income thresholds

What's the takeaway? We should all be prepared for potential reductions to Social Security benefits, especially if retirement is still years away. To the extent possible, Blueprint Income recommends striving for a retirement savings and income plan that excludes or only includes a fraction of your current estimated benefit. That way, you'll be prepared for the worst and otherwise be able to pleasantly surprise yourself with an extra couple of vacations per year!