5 Retirement Concerns Too Often Overlooked

Baby boomers entering their "second acts" should think about these matters.

Provided by Luke Trosclair

Retirement is undeniably a major life and financial transition. Even so, baby boomers can run the risk of growing nonchalant about some of the financial challenges that retirement poses, for not all are immediately obvious. In looking forward to their "second acts," boomers may overlook a few matters that a thorough retirement strategy needs to address.

RMDs. The Internal Revenue Service directs seniors to withdraw money from qualified retirement accounts after age 70½. This class of accounts includes traditional IRAs and employer-sponsored retirement plans. These drawdowns are officially termed Required Minimum Distributions (RMDs).[1]

Taxes. Speaking of RMDs, the income from an RMD is fully taxable and cannot be rolled over into a Roth IRA. The income is certainly a plus, but it may also send a retiree into a higher income tax bracket for the year.[1]

Retirement does not necessarily imply reduced taxes. While people may earn less in retirement than they once did, many forms of income are taxable: RMDs; investment income and dividends; most pensions; even a portion of Social Security income depending on a taxpayer's total income and filing status. Of course, once a mortgage is paid off, a retiree loses the chance to take the significant mortgage interest deduction.[2]

Health care costs. Those who retire in reasonably good health may not be inclined to think about health care crises, but they could occur sooner rather than later – and they could be costly. As *Forbes* notes, five esteemed economists recently published a white paper called *The Lifetime Medical Spending of Retirees;* their analysis found that between age 70 and death, the average American senior pays $122,000 for medical care, much of it from personal savings. Five percent of this demographic contends with out-of-pocket medical bills exceeding $300,000. Medicines? The "donut hole" in Medicare still exists, and annually, there are retirees who pay thousands of dollars of their own money for needed drugs.[3,4]

Eldercare needs. Those who live longer or face health complications will probably need some long-term care. According to a study from the Department of Health and Human Services, the average American who turned 65 in 2015 could end up paying $138,000 in total long-term care costs. Long-term care insurance is expensive, though, and can be difficult to obtain.[5]

One other end-of-life expense many retirees overlook: funeral and burial costs. Pre-planning to address this expense may help surviving spouses and children.

Rising consumer prices. Since 1968, consumer inflation has averaged around 4% a year. Does that sound bearable? At a glance, maybe it does. Over time, however, 4% inflation can really do some damage to purchasing power. In 20 years, continued 4% inflation would make today's dollar worth $0.46. Retirees would be wise to invest in a way that gives them the potential to keep up with increasing consumer costs.[4]

As part of your preparation for retirement, give these matters some thought. Enjoy the here and now, but recognize the potential for these factors to impact your financial future.

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Citations.

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