
HOW TO PLAN FOR THE NEW RETIREMENT REALITIES

Joseph Coughlin – Senior Advisor to wisdomTree
07/13/2018

Just last year, we launched the Advisor Solutions programs to help advisors engage more effectively with their existing and prospective clients. In this blog post, Joe Coughlin, PhD, founder and director of the Massachusetts Institute of Technology AgeLab, and a senior advisor to wisdomTree will take you through one of the pillars of this program, retirement.

Retirement has not only been redefined, it's been turned on its head so to speak. In the days of our parents and grandparents the sequence was working until age 65, retiring with Social Security and possibly a pension, and dying not too many years later.

Today's retirees are living longer and, in many cases, working longer. Some of this is due to financial need; some of it is for reasons such as wanting to stay active and engaged. These and other changes in the definition of retirement can have a profound impact on the work that financial advisors do with their clients to help them prepare for and manage their retirement.

This is why the folks at wisdomTree and I are working together to help you engage clients with new discussions and questions to help them better prepare for the new complexities of retirement.

My research and teaching address the emerging longevity economy, where living longer is just the beginning. The question for all of us is now: How do we live longer, better?

To help people enjoy a financially successful retirement, advisors need to understand the new retirement landscape.

The New Retirement Realities

There are a number of realities that advisors and their clients must understand and incorporate into their retirement plans.

- Clients will live longer than they think, putting a strain on retirement savings.
- Women rule the retirement roost. Women live longer on average and are more likely to be active participants in financial decisions for their households.
- Many retirees live alone, which can be expensive.

- Older clients embrace technology. Advisors need to embrace this and be sure they are equipped to work with tech-savvy seniors.

Retirement Life Stages

My research has led to identifying at least four life stages within what we currently call retirement.

1. Managing Ambiguity

- In stage one, people tend to scale back their full-time work commitments but stay connected to the workplace in some way—for example, by consulting, working part time or volunteering.
- Many first-stage retirees take advantage of reduced work commitments to take up activities they didn't have time for before, such as traveling, going back to school or immersing themselves in hobbies.
- Spending often increases modestly as people spend more time engaged in activities that cost money.

2. Managing Big Decisions

- In this stage, people typically fully disengage from the workforce and look to slow down.
- Retirees' budgets may have a "freedom spike," in which expenses jump as people invest in their dreams—for example, taking major trips and/or making large purchases such as a boat or RV.
- People often downsize their living space and/or purchase a second home in a warm climate.

3. Managing Complexity

- Health starts to decline. Retirees often must make significant withdrawals from savings to cover health costs.
- Home expenses often rise as people become less mobile and must outsource tasks that previously they would have performed themselves.
- The more-able spouse often takes on significant financial, logistical and emotional burdens related to caring for the other.

4. Managing End of Life

- One spouse typically has passed away in this stage. The remaining spouse must learn to live alone while managing her or his own end-of-life process.

- The survivor is usually a woman. Only 30% of women over age 75 live with a spouse.

Implications for Retirees

This all has a number of implications for retirees and their advisors. Many current retirement products and retirement strategies don't take these new realities into account. Here are some planning implications to be considered:

- Don't de-risk prematurely due to longer life expectancies.
- Engage women clients early to be sure they are adequately prepared.
- Rethink the timing of investments.
- Embrace technology for retirees to increase engagement.
- Look for new ways to engage with retirees to help better meet their retirement planning needs.

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