Planning For Unexpected Costs Before You Retire

Your retirement planning needs to incorporate more than just investments

Your open heart and your destitute relatives can combine to threaten your retirement savings – savings you soon may need. Learn the true cost to your future before you write that well-intentioned check.

If you're close to joining the other side of 50, you have probably noticed already that patterns are emerging about how you spend your money differently – including assets you set aside for retirement. And you might be feeling the pressure to further contribute to family finances in ways you hadn't planned.

Unexpected Costs Will Happen

For example, are you prepared for:

- Family members having a tough time financially will approach you because you are and remain responsible about saving and investing.
- Your child needs a loan or your sibling needs help paying bills.
- Your mother with dementia must go into assisted living but lacks long-term care insurance (LTC)

These costs are probably not built into your retirement plans.

Current Trends are Against You

Making things worse is that people live longer now so you need to plan as if you will live into your 90s, some 40 more years. And guess what?

- Your parents may also live longer and need financial assistance in those years.
- Your kids may boomerang after college or in early adulthood, moving home to live with you again for years.

And here are two other not-so-pleasant trends that most certainly do not prepare for:

- Children who have addiction issues and need their parents to pay for the kids' long-term rehab – care that sometimes comprises relapses and requires even more treatment. Parents face how long to keep paying for care, a cost rarely foreseen and included in any financial plan.
- Many plan for organized philanthropy in retirement but instead give money to needy people in daily life. These gifts are nondeductible and don't fit into planned charitable giving.

And how many of us ever really plan for divorce? But did you know that:

- The Journals of Gerontology found that more than 1 in 4 people getting divorced in the United States are over age 50, and over half of those divorces happen after 20 years of marriage.
- Pew Research data from 2017 found that the rate of divorce after age 50 nearly doubled over the past 30 years.

Divorce usually stretches both parties financially and creates more complicated domestic situations – often creating need for frequent financial help, as well.

Don’t Wait To the Last Minute

These issues only get more complex as retirement approaches, and with it your fears of outliving your money and becoming a burden on your family.

Few families discuss long-term care needs or even how to approach planning for elder care. Only a little more than a third (37%) of those 50 and younger believe they will need long-term care, for instance, when in reality 70% will eventually need it, according to the U.S. Department of Health and Human Services.

Out-of-pocket elder care for either you or your relative drains savings fast. Costs range from an average of $18 an hour for in-home care to some $10,000 a month for private care in a nursing home.

Alzheimer’s disease is another top fear. The study reports that nearly half of people 85 and older have Alzheimer’s or related dementias. No doubt most of those retirees prefer to remain in their own homes.

You need to know about the costs of retrofitting you home to accommodate an elderly relative, and what long-term care insurance does and doesn’t cover when under your roof. Your use of long-term care insurance to cover home health care often reduces the policy’s lifetime benefits, for instance. How much coverage remains for institutional care if you eventually need it?

When handling these very personal and complex issues, consult your financial advisor, an elder care attorney and maybe a geriatric specialist. At the very least, think about whether you are becoming the family bank and if you should build the costs into your retirement plan.

Your Financial Advisor

Remember this: when you plan for retirement – no matter how far away it might be – you need to model your financial expenses, anticipate unexpected expenses, think about your lifestyle choices, account for future inflation, and make various market assumptions. More importantly, these must be modeled within the confines of your risk profile and goals.

But when you run these models, you will undoubtedly struggle between your current and your future–retired–self. For your own well-being, favoring the future you is the best choice. Trouble is, this is very hard to do.

Your financial advisor can help you favor your future–self.