

AI-01889 Retirement Inversion

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Explain the concept of retirement inversion? List 22 examples of what can go wrong.

Retirement Inversion: Planning for What Can Go Wrong

The concept of "retirement inversion" is a powerful shift in perspective for retirement planning. Instead of solely asking, "What should I do to have a great retirement?" it encourages you to ask: "What could ruin a great retirement, and how can I plan to avoid it?"

This approach, popularized by figures like Charlie Munger (who famously quipped, "All I want to know is where I'm going to die, so I'll never go there"), emphasizes identifying potential pitfalls, working backward from failure, and making proactive choices to prevent those negative outcomes. By focusing on what not to do, it often illuminates clearer paths to success.

Many traditional retirement plans focus on accumulating assets and projecting income. Retirement inversion, however, encourages a more holistic and risk-averse view, prompting individuals to consider a broader range of threats to their financial security, health, and well-being in their later years.

22 Examples of What Can Go Wrong in Retirement (and that retirement inversion aims to avoid):

Here are 22 examples of things that can go wrong in retirement, which the "inversion" mindset helps you to anticipate and mitigate:

Financial & Investment Related:

1. Underestimating Healthcare Costs: Healthcare expenses often rise significantly in retirement, and many people fail to account for them adequately, including long-term care.

2. Inflation Erosion: Not accounting for the long-term effects of inflation on purchasing power, leading to a diminished lifestyle over time.
3. Sequence of Returns Risk: Experiencing significant market downturns early in retirement, forcing larger withdrawals from a shrinking portfolio and making it difficult to recover.
4. Overspending in Early Retirement: Enjoying a lavish lifestyle too soon and depleting funds more quickly than anticipated.
5. Poor Withdrawal Strategy: Lacking a clear plan for how and when to draw money from different retirement accounts (e.g., taxable, tax-deferred, tax-free), leading to inefficient tax outcomes.
6. Unforeseen Market Volatility: Unexpected and prolonged market slumps that significantly impact investment returns.
7. Carrying Too Much Debt: Entering retirement with substantial mortgage, credit card, or other debt, creating a drain on income.
8. Ignoring Tax Implications: Not planning for the tax consequences of retirement income, withdrawals, and estate transfers.
9. Helping Adult Children/Grandchildren Too Much: Sacrificing your own financial security to provide excessive financial assistance to family members.
10. Fraud and Scams: Becoming a victim of financial scams or elder abuse, leading to significant financial losses.
11. Retirement Account Fees: Paying excessive fees on investment accounts, which can significantly erode returns over time.
12. "COLA Trap" (Military Specific): For military retirees, choosing an unfavorable retirement date that results in a lower-than-expected initial Cost of Living Adjustment (COLA), impacting lifetime benefits.

Health & Lifestyle Related:

1. Declining Health/Unexpected Illness: A major health crisis requiring expensive care or limiting the ability to enjoy retirement.

2. Lack of Purpose/Boredom: Not having a plan for how to spend time meaningfully, leading to feelings of aimlessness or depression.
3. Social Isolation/Loneliness: Losing social connections after leaving the workplace and failing to build new ones.
4. Inadequate Estate Planning: Not having a will, trust, or other estate documents in place, leading to complications and disputes for heirs.
5. Divorce in Retirement: A late-life divorce that significantly impacts financial resources and living arrangements.
6. Unexpected Home Repairs/Maintenance: Major, costly repairs to a home that wasn't adequately maintained.
7. Loss of a Spouse: The emotional and financial impact of losing a life partner, including navigating finances alone.
8. Underestimating Daily Living Expenses: Not accurately forecasting the ongoing costs of groceries, utilities, transportation, etc., in retirement.
9. Loss of Driving Ability: The inability to drive impacting independence and access to services and social activities.
10. Not Having a Long-Term Care Plan: Lacking a strategy for potential future needs such as in-home care, assisted living, or nursing home care. By systematically considering these potential problems, the retirement inversion approach helps individuals to build more robust and resilient retirement plans, focusing not just on accumulation, but on protection and longevity.