SECURE MONEY ADVISORS

10 Common Pitfalls That Can Ruin Your Retirement

Answering 10 simple questions can lead to long-term financial success.

While the need to plan for retirement is practically universal, our collective ability to avoid common retirement planning mistakes unfortunately is not. Generation after generation, well-intentioned, hard-working people make the same mistakes that ultimately jeopardize their retirement...or at least add stress.

How can you avoid a similar fate? Much can be accomplished by simply recognizing what pitfalls could trip you up. Then focus on carefully crafting a plan to avoid all-too-frequent financial follies.

1. Are you planning to retire too early?

- We all have days when we feel like retirement cannot come soon enough. That said, many people actually DO retire too early...at least from a financial standpoint.
- The full retirement age for many Baby Boomers is 66, but roughly 40% of people retire early, missing out on benefits of waiting longer to begin taking Social Security payments.
- Social Security benefits rise about 8% for every year you delay receiving them, which can quickly add up for greater retirement income if you are patient.
- Need help figuring out the ideal time to retire? We can offer guidance.

2. Are you properly accounting for future medical expenses?

- The typical couple retiring at age 65 will need from $245,000-$260,000 to cover the healthcare costs alone in retirement.
- Healthcare costs have been rising, too—Fidelity's estimate of costs rose by 11% in the last year alone—meaning you may need to plan to spend more each year.
- The amount you will need to save for medical expenses can vary based on factors such as your health history and susceptibility, market conditions and more, but just keep in mind that prudent retirees explore ways to cover these costs before it becomes a problem.

3. Are you planning to grow old enough?

- It may sound like a silly question, but it's an important one. Many people take their potential for longevity too lightly, and thus risk outliving their retirement savings.
- The Society of Actuaries states that half of 1,600 respondents aged 45–60 underestimated their projected life expectancies.
- Men aged 65 today can expect to live on average to age 84.3; women in the same situation can expect to live to age 86.6, according to the Social Security Administration. 1 in every 4 of today's 65-year-olds will live past age 90, and roughly 1 in 10 will live past 95.
- Have you planned for a 20- or 30-year retirement? Based on the statistics, you probably should. Base your expectations on ever-evolving data, not experiences of past generations.

4. Are you aware of how much you can safely withdraw annually?

- Many cautious retirees try to abide by the (somewhat contentious) "4% Rule" which states that you should only withdraw about 4% of your retirement savings annually.
- While a hard guideline like the 4% Rule can never account for factors like market volatility
- or personal circumstances, it is better to follow this guidance than to withdraw 7 or 8% per year shortly after retirement as some people do as they learn to cope with excess free time.
- Embracing a desire to "live it up" in retirement and find new adventures is not inherently a bad thing, but be careful how much you withdraw each year—you may regret it otherwise as you age.
- Your financial advisor can help you determine, based on your specific situation and the current financial landscape, what the right withdrawal approach is for you.

5. Are you ignoring tax efficiencies and fees?

- Understanding the fine details of tax law and fee structures that govern investments is not a strong suit for many people, and thus many fall victim to financial penalties they did not necessarily need to pay.
- It can be a good idea to have both taxable and tax-advantaged accounts in retirement, for instance, to maximize a portfolio's optimal after- tax return. There are also ways to take retirement income off both a portfolio's principal and interest, allowing you to reduce ordinary income and income taxes.
- Account fees must also be watched carefully. The Department of Labor notes that a 401(k) plan with a 1.5% annual account fee would leave a plan participant with 28% less money than a 401(k) plan with a 0.5% fee, for instance.
- The bottom line? You may need a financial planning professional to help you find that balance within your portfolios and the right overall strategy for your investments.

6. Are you properly weighing risk in your portfolio?

- In general, many retirees avoid risk as much as possible in their investments since they will now need to depend on that money to live. That is not a bad thing; a conservative approach to retirement investing is a smart one.
- That said, not all risk is bad in your portfolio. Many fixed-rate investments produce significantly lower returns than other more risk- prone options, and balancing a little bit of risk (such as that found in equity investments) can be worth the reward.
- Consider how what amount of risk is appropriate for your portfolio based on your unique—your financial advisor can help.

7. Are you retiring with too much debt?

- Debt, at any stage of life, can be a significant hindrance to wealth accumulation or preservation.
- Avoid handing chunks of your retirement savings to creditors by thinking proactively about how you can be rid of your debt by the time you reach retirement.

8. Are you accounting for what you plan to do in retirement?

- It may seem like a silly question, but the fact is that many people do not start thinking about what they will do in retirement beyond a vague conception of "relax" until they get there.
- Will you truly be relaxing all day, or will you soon find yourself board and seeking new adventures? Will you embrace an "encore career" of volunteering? Will you travel the world?
- There are many options, but the more you can think through them now, the more prepared you can be to finance those dreams—whether highly active or not.

10. Are you planning...at all?

- Hopefully if you are reading this, the answer is “yes”, but unfortunately, far too many people simply do not plan for retirement until it is too late to be adequately prepared.
- An unplanned retirement inevitably brings with in terrible financial surprises, and approaching retirement without an investment strategy leaves you too prone to market volatility and risky behavior.
- If you lack a plan, lack an investing strategy or simply lack confident, talk to your financial advisor soon...it is your best bet for realizing a retirement you can enjoy.

Conclusion

Some of the classic retirement planning mistakes covered above may seem intimidating, but now that you know they exist, why not plan to avoid them? Take a little time to review and refine your retirement strategy in the company of the financial professional you know and trust, and you will be well positioned for success.

We want to be your partner in understanding your retirement goals to develop a holistic approach to protecting your wealth and living the life you’ve wanted to live in retirement.

Contact Secure Money Advisors today to get a conversation started.

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