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Mistakes to avoid when planning for retirement

Investment Strategies

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There are many variables to consider when planning your retirement. Considering that life expectancy today exceeds 79 years, it is important to plan things right, because mistakes, especially early on, can have a material effect on your quality of life for many years in the future.

Here are some of the mistakes that can be avoided by planning and being properly educated:

• **Retiring too early:** Unfortunately, some leave the labor market out of no choice of their own and remain unemployed or underemployed for the remainder of their working years. However, some choose to take an early retirement and pursue other interests. It is often tempting to take an early retirement payout from an employer, but often it is better to let retirement benefits continue to compound while earning additional income. After accumulating a large amount in a retirement account, some leave the workforce thinking that balance will sustain them for the rest of their lives. What they often miscalculate is a safe withdrawal rate that would ensure they don't outlive their money. Others sell their business, settling for an amount they think will allow for a comfortable retirement without first confirming what amount is enough to sustain them in the lifestyle they want in their older years.

• **Timing of Social Security:** While many people look forward to receiving monthly Social Security checks at age 62, it is often far more prudent to wait until full retirement age, which is age 66 or 67, depending on the year you were born. If you postpone collecting retirement benefits beyond your full retirement age, you will increase your benefit by 8 percent each year you wait, up until age 70. The decrease for filing early or the increase from filing later is permanent, so it will affect you for rest of your life.

• **Failing to consider inflation:** You may be comfortable with the income you are able to earn after retiring, but will your income grow so that 10, 20 or even 30 years later, you are able to maintain the same standard of living. Fewer people retire each year with a pension from their employer, and, unfortunately, many of those pensions that still exist do not have an annual adjustment for inflation. Investments need to be made that have a history of protecting against inflation.

• **Too much fixed income:** For prior generations, retirement was a time to invest one's money in conservative investments that produced a fixed rate of income. However, many planners and online planning tools still recommend large allocations to fixed income as the investor ages. These recommendations seem to ignore the negative effect of rising rates on the value of a portfolio, and rates are likely to rise in the coming years, if not decades.

• **Too aggressive:** There is an old Swiss proverb that says, "Money is harder to hold onto than it is to earn." Many people accumulate much of their wealth in 401(k) accounts, and usually the only choice while employed is to invest in the mutual funds that their employer chose for the plan. In retirement, there is no limit as to how that money can be invested, and some choose to invest on their own by trading stocks and often end up losing by not following proper strategies to protect their money. Warren Buffett has two rules for investing. No. 1 is, "Don't lose any money." No. 2 is "Don't forget rule No. 1." Once again, financial planners are there to help retirees avoid making mistakes.

• **High cost of guarantees:** The sales pitch is appealing to many retirees. You can buy a variable annuity, index annuity or some other financial product that guarantees a certain return with little or no downside risk. The problem with many of these products is that they can be very expensive or the upside potential is so limited that the owner will not realize the long-term potential of investing in the markets. Also, the appeal of investing in certificate of deposits with the FDIC guarantee is attractive, but is the rate earned enough to justify the lower long-term return expected by staying in a guaranteed investment?

• **Underestimating health care and long-term care costs:** There is a high cost for health care once you leave the workforce and no longer receive benefits under your employer's policy. Also, the annual cost of care in an assisted living center can easily pass $100,000. If one spouse needs long-term care for an extended period of time, the surviving spouse can be left with a significantly reduced retirement fund. With proper planning, these factors can be considered well ahead of time so that a financial burden isn't created.

Comprehensive financial planning is needed at all stages of life, and especially for the planning associated with retirement. NHBR

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