6 COMMON RETIREMENT PLANNING MISTAKES

“Retirement is a wonderful thing if you have much to live on & even more to live for.”

-Author unknown

Retirement planning is one of the most important financial goals you’ll undertake during your lifetime – and the stakes are high. Do it right, and your golden years can be filled with joy. However, mistakes in the planning process can mean a retirement filled with worry and penny-pinching for you and your family.

While it may seem scary, you need to get the planning right the first time because there are no do-overs when preparing for retirement. Merely stashing away money in an IRA or 401(k) plan is not a strong financial strategy in today’s world. Your well-being and financial confidence are grounded in having an air-tight retirement plan before you retire. **We will examine 6 common mistakes we see with retirement financial planning, and how you can avoid these pitfalls.**

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MISTAKE #1 NOT CREATING A DETAILED BUDGET FOR REGULAR RETIREMENT EXPENSES

To get serious about planning for retirement, it's critical that you have a realistic, and detailed, financial goal and savings strategy long before you retire. You must be able to identify your current spending needs and habits as well as what you will need once you are out of the workforce.

Your basic needs should be identified first. Examples include: housing, debt, food, insurance, health care, dependents' needs, and change in lifestyle.

If you will carry debt into retirement, whether it's a mortgage, credit cards, or other loans, be sure to account for these costs. Ideally you should enter into retirement with as little debt as possible, if any, because loan repayments and interest can take a sizable bite out of your income. You may want to consider making some changes now to avoid bringing unnecessary debt along for the retirement ride, such as downsizing your home or continuing to work longer.

You need to consider your health and wellness, too. Your health will play a key role in your activity level once you stop working, which could mean higher medical expenses throughout retirement.

> "Cessation of work is not accompanied by cessation of expenses"
>
> *- Cato*

MISTAKE #2 NOT CREATING AN ACCURATE INVENTORY OF YOUR RETIREMENT ASSETS

Your retirement assets could be diversified across several funds and accounts. Perhaps you're saving money in an IRA or company retirement plan like a 401(k). And maybe you have money in some personal savings, in various stock market investments, annuities, or bank CDs. Maybe you will also receive rental income or continue to earn an income through part-time work in retirement. But do you know how to make these assets all work together to create the income you need in retirement? Have you documented where all of your retirement funds are located, with account numbers?

It's too easy to just keep saving money in various places and hope for the best. Many consumers today tend to focus too much on the amount of the assets vs how much income they can generate. Obviously, you need to have enough saved to support yourself (and your spouse and/or family). But do you know how that lump of cash can provide you with the income you need to meet your needs and enjoy the retirement you're expecting?

This is where a written plan can be invaluable. You will want to assess not only where the assets are held, but also how they can work together.

The taxation of your portfolio is important as well. For instance, once you earn more than $18,240 in taxable income (for 2020), $1 of your Social Security benefits are withheld for every $2 earned above the limit. Your strategy should address ways to reduce your taxes as possible in retirement.

MISTAKE #3 NOT DEFINING YOUR RETIREMENT LIFESTYLE

Have you thought about how you will keep yourself challenged and entertained during retirement? There are several key financial and lifestyle considerations you will need to address when planning for retirement.

For example, have you given thought to where you will live? Do you want to move to a warmer or more tax-friendly city? Many retirees consider moving to be closer to extended family in retirement. If a relocation appeals to you, you will want to consider what happens to your home. Will you pay it off or use it for rental income? What are the tax consequences of a move?

Travel is a popular activity for the newly retired, and that takes a travel budget. Regular trips to dream destinations or to visit family and friends needs to be worked into your budget. Hobbies and entertainment expenses often increase in retirement. After all, that extra golf game or two each week will add up. When building your budget you will want to be specific. For example, instead of "travel," you may want to list "trips to the lake" or "walking tours of foreign countries."

MISTAKE #4 NOT CONSIDERING THE FINANCIAL NEEDS OF FAMILY

Saving for your retirement may also mean having a plan for others in your budget. Some retirees are being tapped for the long-term care needs of their parents. Talk to your parents about their health care needs to make sure you're not surprised by unexpected bills in retirement.

If you have a child with special needs, you have likely already considered how to care for them as you approach retirement. A special needs child is entitled to Social Security Income, and in most states, they automatically qualify for Medicaid, which provides a range of services for disabled people. You might also consider a "second to die" life insurance policy that provide benefits to heirs after the last surviving spouse dies. It's can be a very cost effective and easy way to fund living expenses for a child.

Oftentimes retirees contribute to their grandchildren's college expenses. The cost of tuition is steadily rising: the College Board[1]

[1] https://research.collegeboard.org/trends/college-pricing/figures-tables/average-published-charges-2018-19-and-2019-20

reports that the average cost of room and board in 2019–2020 ranged from $11,510 at four-year public schools to $12,990 at private schools. In addition, the average tuition for a 4-year degree has increase for years, now costing between $10,000 to $36,00 each year for both public and private colleges[2]. A financial professional can help you evaluate the many ways to help pay for college and choose the one that's right for you.

MISTAKE #5 FAILING TO MAXIMIZE YOUR SOCIAL SECURITY BENEFITS

For many people, Social Security is the foundation of your retirement. In fact, as of 2015, 62% of beneficiaries received at least half of their income from Social Security[3].

The rules for claiming benefits can be complex. But by educating yourself about Social Security, you can ensure that you claim the maximum amount to which you're entitled. Your age when you collect Social Security has a big impact on the amount of money you ultimately get from the program. The key age to know is your full retirement age. For example, you can collect Social Security as soon as you turn 62 but taking benefits before full retirement age results in a permanent reduction — as much as 25.83% of your benefit if your full retirement age is 66.

It can ultimately pay to delay taking benefits, if you have sufficient income from other sources in the meantime. Once you hit full retirement age, you can choose to wait to take your benefit. There's a big bonus to delaying your claim — your benefit will grow by 8% a year up until age 70. Any cost-of-living adjustments will be included, too, so you don't forgo those by waiting.

And timing isn't everything. You have a variety of filing options that will dictate what your monthly benefit is, especially if you are married. There are added benefits of being a spouse. For example, one spouse can take what's called a "spousal benefit," worth up to 50% of the other spouse's benefit. Put simply, if your benefit is worth $2,000 but your spouse's is only worth $500, your spouse can switch to a spousal benefit worth $1,000 — bringing in $500 more in income per month.

You can start by estimating your own benefit by using Social Security's online Retirement Estimator (www.ssa.gov/benefits/retirement/estimator.html). Once you've done that, the services of a financial professional can be instrumental in helping you make the right filing choices for your unique financial situation.

MISTAKE #6 FAILING TO USE A FINANCIAL PROFESSIONAL

Figuring out how to manage your retirement finances doesn't have to be a do-it-yourself job. While some people like to go it alone and see retirement planning as a challenge, this is not necessarily the best course. Retirement planning is a discipline that takes a specialized approach based on education and experience.

A financial professional comes armed with broader, deeper knowledge about money management without the emotional connection. They bring an analytical view and can offer an objective opinion. Also, a financial professional can keep you on track to meet your goals and ensure you don't make hasty decisions that thwart your long-term plans.

In fact, numerous studies have shown that those who work with a financial professional tend to have more retirement savings than those who don't. A good financial professional will help make the planning process understandable and will hold you accountable to the plan.

The mistakes you avoid can make all the difference between the retirement you deserve and the one you have to settle for.

Call us today to review your strategy and make sure you're retirement ready.

555.555.5555
www.YourWebsiteHere.com

[1,2] https://research.collegeboard.org/trends/college-pricing/figures-tables/average-published-charges-2018-19-and-2019-20

[3] https://www.cbpp.org/sites/default/files/atoms/files/8-8-16socsec.pdf

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