Five Retirement Mistakes You Can't Afford To Make

By
Jesse Lunin-Pack

In the over two decades I've worked in financial services, I've met all kinds of people, and advised them on all kinds of issues. In fact, that's one of the things that I most love about my work - no two engagements are exactly alike, and every day brings something different.

But there is one thing that almost everyone I have ever worked with has had in common: they all have hoped to "retire" someday.

Why do I put the word "retire" in quotes? Well, mostly because almost everyone has a different vision of what their retirement looks like. For some, retirement means that they don't have to work anymore - they have visions of travel, hobbies, and spending time with grandchildren. Others view it as more of a change of pace. Perhaps they plan to keep doing what they were doing in their career, but work fewer hours and only with the clients that they truly enjoy.

While I've seen a lot of people retire successfully during my career, I've also seen a lot of mistakes that can make accomplishing the retirement goal significantly more difficult. Here's five you should be aware of:

Mistake #1

Not Maximizing Social Security

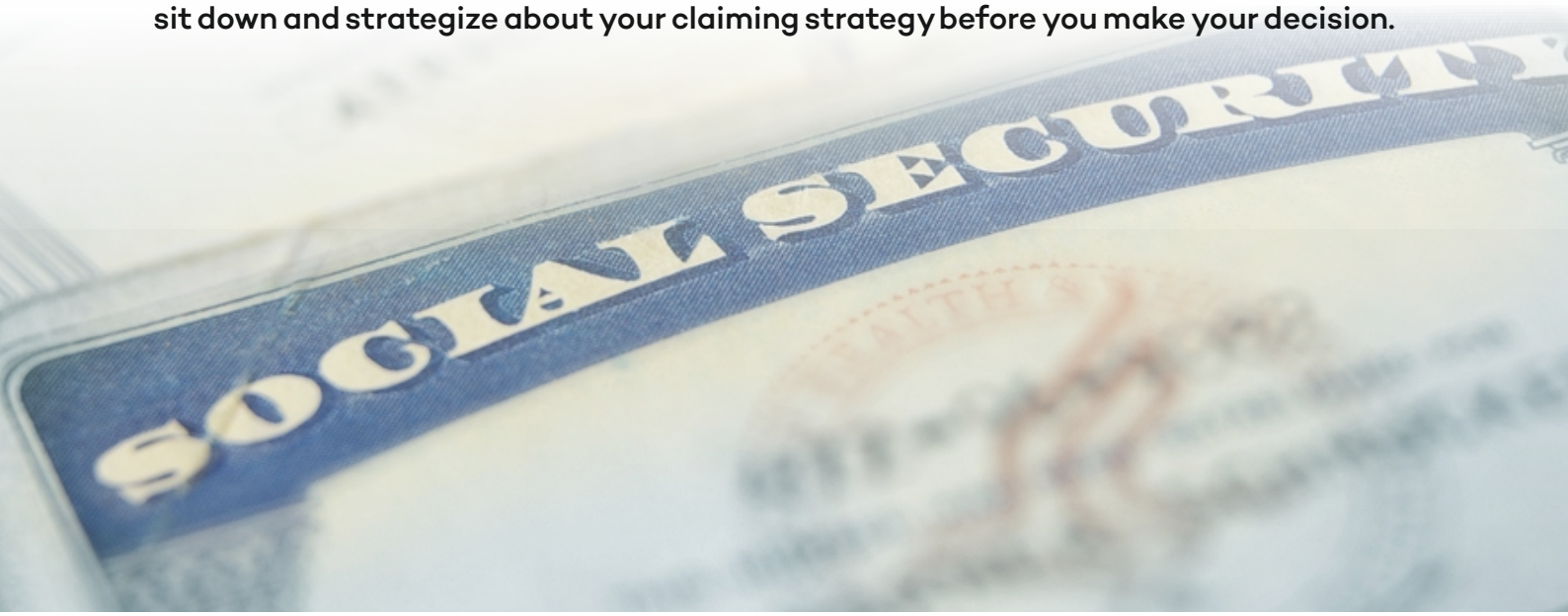
Social Security may not make up a majority of your retirement income, but it almost certainly makes up an important part of it. In an era when few people still receive a guaranteed pension from their job, Social Security benefits may be the only source of income that a retiree is guaranteed never to outlive. Additionally, regular cost of living adjustments help to preserve the buying power of the social security dollars you receive.

When should you claim your Social Security benefit? The answer is a very firm, "it depends." While many of the more aggressive claiming strategies were eliminated in recent years, it still pays to do a thorough analysis before making your decision. Generally speaking, many people would be well served to wait longer than they do. For each additional year that you wait to file between "Full Retirement Age" and age 70 when the benefit stops increasing, you receive an 8% increase in monthly benefits. Can you think of another investment that guarantees you an 8% return each year, and is backed by the United States Government?

Importantly, this maximum benefit is also what will determine your survivor benefit. When one spouse dies, the surviving spouse will receive the greater of their own benefit, or the benefit of their deceased spouse. It pays for the spouse with the higher benefit to wait!

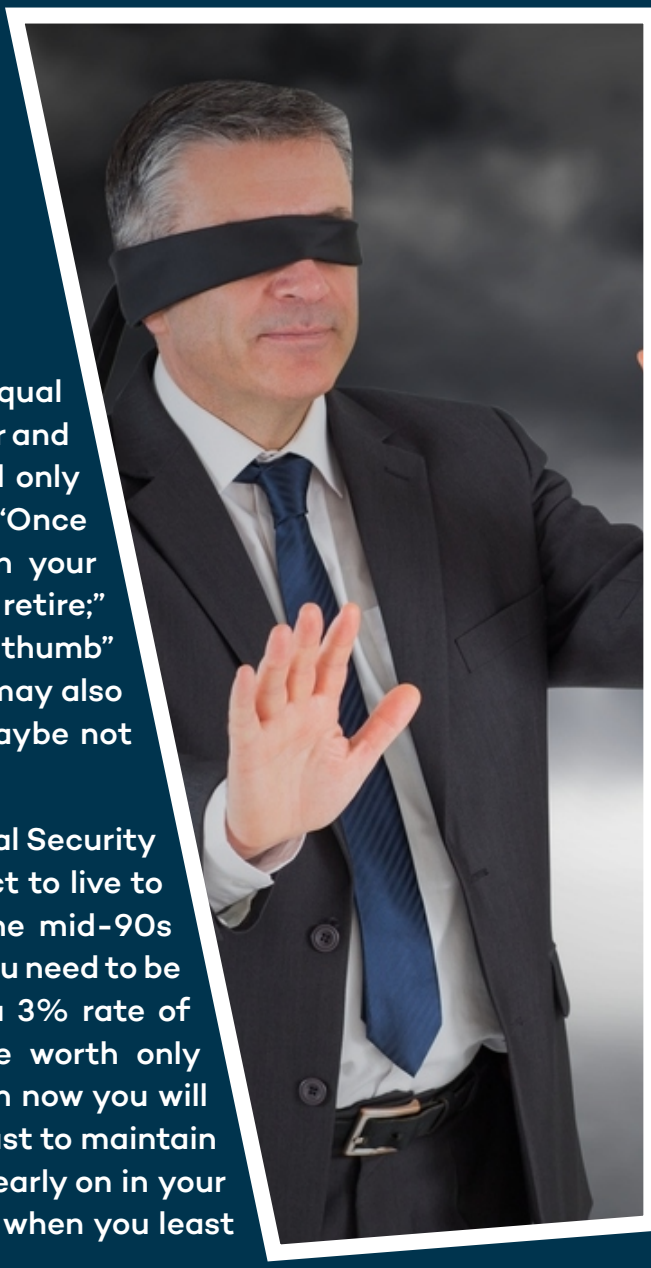
What if you need the extra income before you turn 70? That's OK. With careful advanced planning, you may find it is in your best interest to spend some of your savings in order to wait for the higher income later!

Of course if you believe that you will have a shorter than average life expectancy, it may actually pay to claim your benefit early. That's why it is so important to actually sit down and strategize about your claiming strategy before you make your decision.



Mistake #2

Blindly Following A Rule Of Thumb



"The percent of your portfolio in bonds should equal your age;" "Withdraw 4% of your portfolio each year and your money will last the rest of your life;" "You will only need 80% of your working income once you retire;" "Once you retire you need to be very conservative with your investments;" "Pay off your mortgage before you retire;" "Never fight a land war in Asia." All of these "rules of thumb" have some grounding in reality, but each of them may also lead you astray if you blindly follow them (well, maybe not the last one).

The fact of the matter is that according to the Social Security Administration, the average 65 year-old can expect to live to his or her mid-80s, and one-in-four will reach the mid-90s (women, on average, outlive their male partners). You need to be planning for a 20 to 30 year retirement, and at a 3% rate of inflation $100,000 of income today will only be worth only $57,000 20 years from now. In fact, 30 years from now you will need to have increased your income by 2 ½ times just to maintain your standard of living! Getting too conservative early on in your retirement can be a recipe for disaster later in life, when you least have the ability to make changes.

Conversely, you want to be able to live the retirement life you've always dreamed of, and not just worry about the future. Depending on how investments perform, starting with a 4% withdrawal rate may leave you on your death bed with significantly more assets than you started your retirement with. While you heirs may be happy to receive the inheritance, nobody wants to look back on their life and realize that they could have afforded to do more things, and have more meaningful experiences, but they didn't out of fear of running out of money.

Rules of thumb may work for the "average" retiree, but you are not average. You are a unique individual (or couple) and your retirement plan should reflect your unique vision and values. Don't sell yourself short by taking the easy way out!

Mistake #3

Not Planning For Long-Term Care

Long-term care is the elephant in the room that nobody wants to think about. Nobody wants to spend their last years living in a nursing home, reliant on strangers for their care and with an unknown person as a roommate.

And that's the point of planning for long-term care. According to Morningstar, 52.3% of 65 year-olds can expect to have a need for long-term care at some point in their lives. For women turning 65, that number is even higher (remember, women tend to outlive their male partners). The correct way to look at long-term care planning is not to plan for "what happens IF I need it," but rather to plan for "what happens WHEN I need it."

Traditional long-term care insurance has (justly) earned a bad reputation as a product that is sold at unreasonably low rates, and then the price goes up every year until it is no longer affordable. However, it's quite possible to spend down even a comfortable nest egg with a relatively short need for care. So how do you plan?

As with most retirement questions, your ability to plan will be very dependent on your unique situation. If you have sufficient assets, you may indeed be able to self-insure. Perhaps you have an old life insurance policy with cash value – these policies can often be exchanged for a new policy that includes coverage for long-term care expenses on a favorable basis (of course only if you are healthy – all the more reason to get to the gym regularly!). Or perhaps traditional long-term care insurance may be appropriate.

However, even if none of the above options are appropriate for you, it is still important to plan ahead. By consulting with a qualified eldercare attorney, it may be possible to stay in your own home surrounded by your loved ones, even if you require round-the-clock care and don't have the resources to pay for it. By planning ahead, you can ensure that whatever happens, you will be taken care of in the manner that best preserves your dignity, and best preserves resources for your surviving spouse and family once you're gone.

Mistake #4

Not Starting Early Enough/ Waiting Too Long

Earlier in this piece, I noted that "being able to retire" was a financial goal shared by just about every client I've ever worked with. Even a recent college graduate in their first job has some understanding of the fact that while going to work each day may be a major activity in their new life, it is not something that they hope to do for the remainder of their life! Very few people have "die at my desk" as one of their life goals. And if you do have that as your goal, you should be prepared for the eventuality that your mind may change as you get closer and closer to realizing that goal.

If a 25 year old were to save $6,000 per year - $500 per month - into an investment earning 6%, they would have accumulated just over $990,000 by the time they turn 65. On the other hand, if you wait until you turn 50 to start saving, you could put away $36,000 per year - $3,000 per month(!) – into that same investment earning 6%, and still not catch up to that frugal 25 year-old, as you would have only $924,000 accumulated.

Now, I know what you're thinking. "Why is Jesse making me feel bad – I can't go back to my 20s and start saving." And that's true. But you CAN start today, no matter how old you are. And you can share this mistake with you kids, grandkids, or any other young person you might know, and make sure that they understand the value of starting to save for retirement while they are still young.

That said, what can you do TODAY? Well, the sooner you start planning for your retirement, the more time you have to figure out what is realistic, and to make some changes. If you know that you are only going to be able to live on $6,500 per month in retirement but today you are spending $12,000 per month, there is no time like the present to start determining what expenses you are most able to cut back. The sooner you get started, the more time you have to get used to the changes before you have no choice – and you'll also have the added benefit of being able to save more now!

How do you figure out how much monthly spending you can afford in retirement? Well, that's all a part of your retirement income plan. It needs to take into account your Social Security benefits (which you've done the analysis to maximize, right?), any pensions, 401(k) or other employer sponsored plans, IRAs, annuities, and savings. And you need to project out all of your spending and investment returns over the whole of your retirement. It's a big job, but not one that you can afford to put off.

Mistake #5

Only Focusing On The Money

As important as it is to make sure that your money issues are squared away as you approach retirement – that you have maximized your Social Security benefits, know what your monthly income and expenses are, have planned for a long-term care event, and that all of these plans are specific to your unique situation – it is equally important to make sure that you are focusing on more than just the money.

As I noted above, you will likely live out your retirement for 20 or 30 years or more. You certainly don't want to be the person who leaves their retirement party at the job they loved and goes home with no idea how they are going to fill their time. Getting ready for retirement is a time to focus on what is REALLY important to you. How will you fill your time? Who will you spend time with?

You also don't want to be the person who sits around their home all day obsessing over the balances in their investment accounts. As difficult as it can be for me to work with folks who need to seriously adjust their expectations about what their retirement will look like due to lack of assets, I have been amazed to work with a number of couples over the years who simply could not figure out how to retire. One couple had close to $3 million of net worth, which could easily be turned into a reliable income that, combined with their Social Security benefits, would have supported them nicely for the remainder of their lives. And yet they both continued to work in jobs that they hated, because the retirement money was "for later." And they had never taken the time to sit down and figure out what that "later" looked like FOR THEM. Try as I might, I could not get them to stop fearing the unknown and enjoy the fruits of their many decades of labor.

Spend some time thinking about your core values. Write them down. Think about how you want to be remembered, and make a plan to live your retirement years according to your most deeply held values, doing the things you enjoy, with the people you love, and creating a legacy you can be proud of. It doesn't matter how much money you have – each and every one of us can live a rich life, if we can figure out what that means TO US.

Bonus Mistake

Not Seeking Professional Help

Look, I get it. Financial advisors have earned somewhat of a bad reputation over the years. But here's the thing: you only get one chance to get retirement right. This is what I do all day, every day. You may have consulted with a guidance counselor in high school to figure out the appropriate college, a career counselor in college to figure out how to earn a living, and a marriage counselor or religious leader before getting married to make sure you and your spouse were on the same page. All of these people had shepherded countless others through the process you were about to begin, and brought that experience to bear to help you succeed. Why would you not look for the same level of experience to help you through this vitally important transition between the world of work and retirement?

A good financial planner can easily help you with all of the hard numbers-based issues you might have. He or she can help you figure out how to maximize your Social Security benefits, how to best invest your hard-earned assets to provide the retirement income that you need, how to plan for the potential of needing long-term care in a way that keeps you comfortable.

A GREAT financial planner can also help you explore the non-money aspects of retirement. He or she can facilitate some exercises to help you figure out your most deeply held values, and how you are going to live your life according to those values as you transition into retirement – an exciting time of life, full of the potential for self-realization.

Jesse Lunin-Pack is the lead advisor at Lunin-Pack Financial Group where he helps clients to align the lives they are living with the values that are most important to them. He is an Investment Advisor Representative of and offers Securities and Investment Advisory Services through Woodbury Financial Services, Inc., a Member FINRA, SIPC and Registered Investment Adviser.

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Jesse can be reached at

(877) 570-7660

or info@lunin-pack.com.