8 Blunders to Avoid in Retirement

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You're about to approach one of the biggest milestones in your lifetime: retirement. For many retirees, this is a momentous event that gives you much needed time for family, relaxation and to enjoy hobbies. For others, this may create apprehension and fear. But, it doesn't have to be that way. With the proper planning strategy, you can move toward your future with confidence and excitement. **Avoiding these common mistakes during retirement can put you on the right path to enjoying your second act.**

01

Failing to incorporate “extra” expenses into your financial plan.

Many assume that living expenses decrease during retirement years, but usually the opposite is true. Expenses often increase in retirement because people finally have the time to travel, pursue their passions or discover a new hobby. It’s important to incorporate those “extra” expenses (including healthcare costs) into your financial plan.

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02

Underestimating the cost of healthcare.

The rising cost of healthcare weighs heavy on the minds of many retirees. In fact, it's estimated that only 8% of retirees have appropriately budgeted for healthcare expenditures.[1] Out-of-pocket expenses, unforeseen accidents, Medicare premiums, prescription medications, long-term care, etc. should all be factored into healthcare costs.

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03

Inadequately accounting for taxes.

Did you know that most forms of retirement income are taxable? This includes pension income and Social Security, as well as interest, dividends and capital gains on any non-retirement accounts. According to Forbes, “Some taxpayers age 70 1/2 and over can find themselves subject to a 55% increase in marginal income tax rates due to a combination of RMD income, Social Security benefits and capital gains.”[2] It’s important to appropriately estimate your taxable income and ensure you have the correct amount of tax withholdings.

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04

Failing to adjust your financial plan when retiring earlier than projected.

For some, early retirement is a planned event that has been integrated into their retirement plan. For others, early retirement may be a surprising or even forced event that can have a big impact on their financial plan. Whether job loss, health problems or taking care of a loved one causes you to leave the workforce sooner than expected, adjustments will be necessary to account for your retirement savings needing to last longer.

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05

Funding unbudgeted expenses for loved ones.

It's not uncommon to plan for the funding of life events, such as college education for your children/grandchildren, assistance for your aging parents or even a dream trip for the whole family. If these high-cost items aren't incorporated into your financial plan, their impact can have long-term repercussions. Knowing this could potentially put you in financial jeopardy down the road, be selective about how and when you support those you care about. Try to think about these decisions with both your head and your heart.

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06

Underestimating your longevity.

Human life expectancy is climbing higher and higher. Because we don't know the date of our death, it's challenging to anticipate the length of time our retirement savings should last. The biggest fear can then become outliving your money. That's why it is so important to accurately gauge your life expectancy to reduce longevity risk – the risk you live longer than expected. Your financial advisor can help determine the amount of years your nest egg needs to last to provide confidence and properly prepare for advanced age.

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07

Relying solely on social security to cover your living expenses.

For many retirees, Social Security is a major source of income. There are many options when it comes to how and when to claim your Social Security benefits. Engaging a trusted financial professional will help you determine the right strategy for your specific needs. However, in order to live a comfortable retirement, you may need more than just Social Security. Retirement savings may include pensions, investment accounts, 401k contributions and more.

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08

Forgetting about Required Minimum Distributions (RMDs).

Once you reach age 70 1/2, you are required to take distributions from your retirement accounts. The amount is based on a formula that considers your age and account balance. If you don't take these RMDs, penalties can be steep with taxes up to 50% of the amount you were supposed to withdraw. RMDs are taxed as ordinary income and can sometimes bump retirees into the next tax bracket, so make sure you've calculated your income tax correctly.[3]

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Ready to talk?
Contact us today!

Retirement doesn't have to be scary. Talk to your financial planner to discuss your retirement plan. In addition to their valuable advice, they can serve as your accountability partner to help ensure you don't fall victim to these common retirement mistakes.

[1]Social Security Administration. March 2018. https://www.ssa.gov/

[2]https://www.forbes.com/sites/nextavenue/2016/02/04/abcs-of-rmds-required-minimum-distribution-rules-for-retirement/#40e04eef6db7

[3]The National Institute on Retirement Security. March 2015. "Retirement Security 2015: Roadmap for Policy Makers – Americans' Views of the Retirement Crisis."

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