5 Mistakes to Avoid in Retirement

From taking too much risk to increased spending and failing to properly plan, retirees have a lot to think about when beginning the next chapter.

You've spent a lifetime working hard and saving money so that one day you can retire and enjoy the fruits of your labor. Hopefully you'll have created a comprehensive retirement plan long before that day comes. However, you may be surprised to learn that retirement planning doesn't stop once you retire. In this article, I will outline 5 common mistakes you can avoid as you enter retirement.

1. Failing to take a more conservative approach to investing

Many folks who enter retirement fail to adjust their thinking on risk and how it relates to their investment portfolio. Understandable given the fact that people spend most of their lives in two stages of the financial life cycle: first, the asset accumulation phase (age 25-45); and second, and the pre-retirement phase (age 45-65). These first two phases typically coincide with a higher risk tolerance and therefore a more aggressive investment approach. However, once you enter the third and final phase of the financial life cycle, the retirement phase, it's important to discuss risk management, set new parameters, and ensure that your portfolio is properly aligned with your overall objectives.

One of the biggest mistakes retirees make is taking on too much risk, leaving their portfolio susceptible to greater swings and changes in value when, for most folks at this stage, *protecting* their nest egg is now the top priority.

2. Spending like you used to and disregarding the budget

During the pre-retirement years, many people who work have a budget and cash-flow plan. However, because of family dynamics, increased cost of living, and other factors - these same folks usually exceed those plans by overspending. For some that may be okay because they can reimburse those expenses by working extra hours and bringing in more income. But the game changes in retirement. In retirement, you're no longer deriving compensation, making it *extremely important* to stick to your budget. And this may be even more difficult for retirees as, with more time on your hands, it can be easier to overspend on travel, dining and spoiling the younger generations. But compounded with inflation, this can be a disastrous mix given that you'll most likely be living off a fixed income during your retirement. Therefore, both creating *and* adhering to a budget is absolutely critical for retirees.

3. Taking social security benefits at the wrong time

One of the most common questions for people in retirement is when to start taking social security. For years it was thought that retirement began once you turned 65 years old, but that number has changed. For people born after 1954, the retirement age has been bumped up to age 66, and the earliest you can claim social security is at age 62 regardless of your full retirement age. The bottom line is the younger you are today, the older your full retirement age will be and the greater the penalty for taking benefits early. But it's not so cut and dry. Figuring out when to take social security depends on what your needs will be, how long you plan to work, how much you have in other assets, along with other factors to ensure that you are maximizing your benefits.

4. Not planning properly for the cost of health care

Most people either have no idea what their health care costs will be or dramatically underestimate those costs in retirement. Unfortunately, those that understand this piece of the puzzle most likely had an experience with a parent or other elder person that they cared for - and it was probably expensive. From medications to nursing homes these costs continue to climb each year. In fact, a couple who retired in 2017 can expect to spend about $275,000 on health care costs in retirement, according to Fidelity Investments.[1]That means health care may be one of the biggest expenses in your retirement budget.

Failing to properly plan for health care costs can significantly affect a retirees ability to maintain his/her lifestyle during retirement. But there are measures you can take to reduce health care costs and ensure that you stick to your plan.

[1] https://www.cnbc.com/2017/08/24/average-couple-will-spend-275000-on-health-care-in-retirement.html

5. Creating issues for the next generation

One of the most procrastinated topics for retirees is generational planning and wealth transfer strategies. Nobody likes talking about death. In our experience, however, it's one of the most important topics to discuss. Families can be torn apart by conflict after a patriarch or matriarch passes on. Funeral costs, estate taxes, and fighting over inheritances are among the burdens left for your loved ones to figure out if you don't leave them with a well-designed plan. For those that plan to donate their estate to charity, there are measures you can take to ensure that your assets go to the right place at the right time.

If you don't want to create issues for the next generation, establish a plan. Decide what you want to happen with your estate now so that your loved ones aren't burdened with trying to figure things out after it's too late. The earlier you start thinking about it, the better.

Talk with an advisor today to ensure that you avoid these 5 common mistakes that retirees make.

Let's Have A Conversation

Contact:

Paul Litchfield, CPA, MBA
Senior Vice President
Financial Advisor
Claro Advisors
Email: Plitchfield@claroadvisors.com
Phone: (781)552-9475