10 Common Retirement Mistakes

In a sense, you have been planning for your retirement ever since you started working. Maybe you've been contributing to a 401(k) plan, or maybe you've been socking away money in an IRA, but without a doubt, you've been looking forward to your golden years. And we want you to enjoy those years without worrying about having to take out a reverse mortgage on your house.

For many people, retirement is not the stress-free vacation from financial concerns that they had envisioned, and bad planning is often the culprit. Here is a list of 10 common mistakes that retirement-age individuals often make as they try to manage their own financial affairs. Careful planning will help you avoid these pitfalls so that you can relax, confident of your security in retirement.

1 Outliving your assets.

We live in an era of unprecedented progress. Medical and technological advances have improved the lives and longevities of Americans; a man who reaches age 65 can be expected to live until age 84, while a woman can expect to live until 87. As an increasing number of Americans celebrate their 90th and 100th birthdays, financial professionals must recognize the probability that a client's retirement may last just as long as their working days. How to ensure retirement income for 30 or 40 years after your last paycheck must be the focus of your wealth manager.

2 Favoring accumulation over distribution.

You may have spent years trying to grow your assets. Now it's time to draw on your accounts. And while this may appear to be a simple matter of selling a particular stock, there is something of an art to taking distributions. Determining which assets to liquidate and when to do so requires careful analysis of projected returns, income streams, and taxable consequences.

3 Ignoring the effects of inflation.

A couple may say, "All we need is $60,000 per year for the next 20 years. It's simple." Unfortunately, this may not be the case. Assuming a 4 percent inflation rate for the next 10 years, the couple would need almost $90,000 if they want to maintain their current lifestyle. If they lived for 20 years, they would need to draw more than $130,000 after year 19, all because of inflation. What's worse, year-over-year increases in the price of prescription drugs and medical supplies have far outpaced the inflation rate, as measured by the Consumer Price Index, forcing retirees to dip into the income they had planned on saving or passing on to heirs. Prudent financial guidance requires that you factor in the "real" value of your asset growth and income needs.

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4 Uncertainty about social security.

Many people believe that once they hit early retirement age, they should immediately begin receiving social security benefits. Other retirees have been advised to wait as long as possible before drawing distributions. While there is no right answer for everybody, there is a right answer for you. Depending on your health, life expectancy, retirement goals, and sources of income, you may want to receive social security benefits beginning at age 62 (your early retirement age), your full retirement age (between 66 and 67), or even age 70. Because there is no time at which it is mandatory to take benefits, determining just when you should begin receiving social security is a critical component of retirement planning.

5 Incorrectly titling your assets.

It is common for a client to own accounts that name an estate as the beneficiary, fail to list a contingent beneficiary, or indicate that they are jointly held. Nonetheless, the consequences can be quite severe. In some cases, you or your relatives may be dragged into a probate court, creditors may gain access to your wealth, your inheritance may fall into the hands of people other than those whom you intended, and you may incur significant tax consequences. Allow your advisor to conduct a thorough beneficiary review—it could save you money later.

6 Overlooking the effects of changes in tax law and issues of tax efficiency.

There are few areas as poorly understood by the general public as tax law. Partly, this is because there are so many laws regarding taxation, but it's also because the law is constantly changing. Since 2000, federal legislation has drastically modified marginal and capital gain rates, tax treatment of dividends, IRA distribution rules, and estate and gift tax rates. Failing to consider tax law changes could render an investment plan ineffective, while taking advantage of tax law could save you a substantial sum. It is also important to consider tax-efficient planning—not only for yourself but for your heirs, too. There are a variety of strategies that can ease the tax burden on your beneficiaries, and you may consider the possibilities of a charitable gift, an annuity, a charitable remainder trust, or a private foundation.

7 Mistaking diversification for asset allocation.

Some people believe that the key to investing lies in owning a variety of assets. They focus on the quantity of positions, claiming that by holding 10 stocks, they hold a "diversified" portfolio. This statement, while to some degree accurate, hardly protects them from the market's fluctuations. Why not? The reason can be found in the distinction between diversification and asset allocation. While diversification merely mandates distributing assets across a number of investment vehicles, asset allocation requires that the investments are spread across a variety of asset classes, some of which have low correlations to one another. By investing in a variety of asset classes and choosing investments that react differently to market conditions, you can better withstand market volatility and potentially capture the market's upswings over the long term.

8 Allowing yourself to be influenced by the media.

It is a known fact that the market always overreacts. Bullish news sends it soaring, and bearish news exacerbates bad times. More than any other factor, media commentary can escalate bubbles and trigger sell-offs. The long-term investor (with a time horizon of more than one year) knows that today's hot IPO according to news commentary has a good chance of losing value over the next five years. Intelligent investors cannot be influenced by the banter of talking heads. Markets experience cycles, and you cannot escape the ups and downs through hyperactive trading in response to the word on the street.

9 Underestimating the value a financial advisor can provide.

Do-it-yourself investors often believe that their retirement needs are met. Despite their confidence, many of these individuals are unprepared for the future and lack a clear financial plan. Unaware of the various insurance and investment products specifically designed for retirees, unfamiliar with tax laws and asset allocation theories, and unqualified to act as their own distribution specialist, these investors often find themselves in difficult situations. You might be a superstar at your job, but you are probably ill-equipped to formulate an effective retirement plan for you and your family. This is why it's so important to seek the guidance of a financial professional.

10 Not getting an annual financial checkup during retirement.

The world is constantly changing. Tax laws are modified, new products are introduced, and personal circumstances and goals can shift. As all of these things happen, it is necessary to monitor your investments, review your distribution plan, and discuss your life. Your portfolio may need to be rebalanced, and your risk tolerance may need to be reevaluated. For these reasons, we recommend that you meet with us regularly—at least annually—to help manage your money, so you can enjoy your retirement years.