

The Five Worst Retirement Planning Mistakes

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What should you avoid in your retirement planning? We've seen them all but here are the five worst mistakes.

Insufficient Savings

Your retirement nest egg is the key to your success. Today, this means that you must save as much as you can, as early as you can. It is impossible to make up for the failure to save. Time is your most important asset when looking for growth of your retirement savings and the earlier you begin the more time you will have. Begin today regardless of your age or the amount you can save.

Another reason to save early and often is that your retirement years may be longer than you can imagine. The average 65 year-old man has a 28% chance of living to 90; a woman 41%. More than half of the time one of them will live to 90.

Insufficient Cash

Even in retirement you will need an emergency fund. It will provide a cushion in case of the unexpected. Having cash means you can avoid selling equities after a big market decline. Keep at least three years of withdrawals in cash or bonds.

Insufficient Diversification

Investing entirely in any one asset class, equities or bonds, CDs or real estate, can wreck your financial future. Use any of the commonly available asset allocation questionnaires to see what your allocation should be. Remember that you are likely to live 20 or more years in retirement so you need growth to offset inflation and to maintain purchasing power.

Whether you will run out of money is very closely tied to your asset allocation and withdrawal rate. For example, over a 25-year period, a 6% withdrawal rate will affect the portfolio as follows:

75% equity allocation will keep you in funds 60% of the time.
25% equity allocation will only work 22% of the time.

Diversify your portfolio over markets (US and international), large and small companies, and eliminate concentrations in single stocks. This will fortify your portfolio against excessive losses. Better yet get a professional investment advisor (we're available!) to look at your portfolio and recommend changes. After all you can't afford any mishaps at this stage in your life.

Underestimating Health Care Costs

Sure Medicare will cover a lot of health care expenses. A Medicare supplemental plan may pick up even more of your costs. However, prescriptions, dental care or eye exams may be a big part your budget in retirement. The more health issues you have the higher your costs may be in retirement. So, don't underestimate these costs in your retirement budget.

Spending on the Fly

Once you are retired and on a fixed income, controlling expenses is your biggest concern. Sit down and develop a realistic budget. Once done, your job is to keep your expenses in line with your budget. Don't spend on the fly.

One last thought: be sure to plan what you will do in retirement. Develop the hobbies or interests that will keep you occupied and make your non-working years enjoyable. Good luck and smooth sailing.