8

Retirement Mistakes To Avoid

to Make the Most of Your Golden Years

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FINANCIAL PLANNING

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When it comes to your retirement, you want to be fiscally prepared. After all, you've worked hard all of your life and deserve to truly enjoy your golden years without constantly worrying about your finances 24/7.

But here's the thing: Even though it's incredibly important to set yourself up for the future, planning for retirement can feel overwhelming and stressful if you don't have help. We hear these concerns all of the time. What if I run out of money before I run out of retirement? What if I don't even know what my retirement is going to look like? Or even worse, what if I overlook details that can screw up the whole thing?

Thinking about retirement can be so nerve-wracking that many people don't want to think about it all. In fact, according to Northwestern Mutual's 2019 Planning & Progress Study, only 10% of those surveyed believe that they'll have enough saved for retirement, and 45% say they haven't taken any action to address the problem.

If this is you, take a deep breath and read on. You can have the retirement of your dreams, with enough money to last you through the years, if you plan accordingly, and we are here to help you get there. Fullerton Financial Planning helps people develop a retirement plan, so they can live and retire with confidence.

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In the meantime, to help you get started on your dream retirement, we're listing the eight most common retirement mistakes you need to avoid. You deserve for your golden years to be golden. Read on to start making that happen.

1 No Strategy

You know that old adage, "If you fail to plan, you are planning to fail?" There is a reason it's still around. Because it's true! Ensuring that you have an awesome retirement— having the financial wherewithal to do whatever you want after you say goodbye to work—starts by creating a strategy. Simply put: make a plan.

Your strategy should include specific, measurable financial goals for your retirement. Why are goals so important? They'll give you something to aim at and keep you focused and motivated to continue saving and investing.

Related: Want to know how to create a retirement plan? Check out our Retirement Readiness Checklist.

Fullerton Quick Tip: Goals don't do much good if they are simply floating around in your head. Get them down on paper or create a spreadsheet you can refer to, then share them with a friend. How important are these steps? Research shows that you're more likely to hit goals that are written down. In fact, you are 42% more likely to achieve your goals if you write them down, according to a study by Dr. Gail Matthews at the Dominican University of California.

2 Frequent Trading

There's a good chance that chasing "hot" investments is going to leave you out in the cold—horribly affecting your portfolio. Instead, create an asset allocation strategy that is properly diversified to match your goals, risk tolerance, and timelines. You can be a bit riskier in your 20s than in your 40s, for example. And then, make adjustments based on changes in your personal situation—not because of market ups and downs[1].

Fullerton Quick Tip: Remember, when it comes to investing for your retirement, you are in it for the long haul. It's like the old proverb, "Slow and steady wins the race." Just like in the fable, be the turtle, not the hare.

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3 Not Maximizing Tax-Deferred Savings

There may be no such thing as a free lunch, but there is definitely “free” money if your employer offers a 401(k) matching contributions plan. Not taking advantage of it is a huge mistake. It’s a 100% return on your investment.[2]

Fullerton Quick Tip: If your employer doesn’t offer a 401(k) plan, matching or not, there are still ways to save without taking a big tax hit. You can open a traditional individual retirement account (IRA), which is often tax-deductible. The contribution limit for 2020 is $6,000 annually. If you are 50 or older, it’s $7,000. Remember, though, withdrawals after you’ve retired is considered ordinary income.

A Roth IRA is another great alternative. You don’t get a tax deduction when you contribute to it, but the money is tax-free when you retire. Like the traditional IRA, there are limits. If you file taxes as a single person, your Modified Adjusted Gross Income (MAGI) must be under $139,000 for the tax year 2020 and under $140,000 for the tax year 2021 to contribute to a Roth IRA. If you’re married and file jointly, your MAGI must be under $206,000 for the tax year 2020 and 208,000 for the tax year 2021.

4 Prioritizing College Funding Over Retirement

We all want our kids to become well-rounded, successful adults who will be able to live the lives of their dreams, and education is critically important for them to be able to reach these goals. Saving for college is important, but you have to put yourself first when it comes to retirement saving.

Think of it this way: If you aren't prepared, you could eventually become a burden to your kids in your later years—and no one wants that! And remember, there are always grants, scholarships, student loans, and a myriad other ways—like part-time jobs—that your kids can help fund their education.

Fullerton Quick Tip: Saving for retirement and your children's college doesn't have to be an "all-or-nothing" situation. You can do both. Once you develop a plan to ensure your future retirement, you can allocate a small percentage of your savings for education and the bulk for funding your retirement. For example, 90% towards your 401(k) and 10% for your kids via an Education Savings Account (ESA) or 529 plan to begin. Later, as your 401(k) grows and you are on a good trajectory to hit your retirement goals, you can put more into their college funds.

5 Overlooking Healthcare Costs

One of your biggest expenses, after you retire, will be healthcare. You are eligible for Medicare—the federal health insurance plan for seniors—at age 65, but keep in mind that even with basic Medicare, you will still incur healthcare expenses like deductibles and copays. Most retirees add a supplement program to help cover those costs. And don't forget to factor in prescription costs that can also be expensive—even if your insurance pays for part of your medications.

But that's just the start. Even more costly than your healthcare is long-term care. It can be incredibly expensive—an estimated $30,000 to $50,000 a year in today's dollars—which can wipe out your savings and possibly leave your spouse in a financial bind.

Fullerton Quick Tip: Financial expert Dave Ramsey recommends that you purchase long-term care insurance when you turn 60. Just like any other insurance, find a broker who works with many different insurance companies to get the best and most affordable plan that will work for you.

6 Not Adjusting Your Investment Approach Well Before Retirement

The last thing your retirement portfolio can afford is a sharp fall in stock prices and a sustained bear market at the moment you're ready to stop working. Consider adjusting your asset allocation in advance of tapping your savings so you're not selling stocks when prices are depressed[3].

Fullerton Quick Tip: If you're close to retirement and you're nervous about the stock market's ups (and more importantly the downs), remember that you're not alone. We are here for you and can help guide you through the process.

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7 Retiring with Too Much Debt

One of the biggest drains on retirement is debt. Every dollar you owe reduces your after-work income. So, the ideal situation is to be debt-free by the time you retire.

Fullerton Quick Tip: We get it. Becoming debt-free by the time you retire is not always possible. If this is the case, we recommend paying off high-interest rate debt first. Then do a balance of savings and paying off your low-interest loans.

Even though it's awesome to be debt-free before you retire, it won't help you if you have zero savings in the bank. You can check with one of our financial planners to learn the best way to handle your debt.

8 It's Not All About the Money

A rewarding retirement requires good health, so maintain a healthy diet, exercise regularly, stay socially involved, and remain intellectually active. The last thing you need to do is work your entire life and then not be able to travel, hang out with friends, play with your grandbabies, or all the other sweet benefits of living out your later years.

Fullerton Quick Tip: Many health providers offer free gym memberships for seniors. And numerous gyms, as well, have free or highly reduced-cost programs for those over 65. Check them out. It's a great way to stay healthy and meet lots of new friends.

Summary

You don't have to be stressed or overwhelmed about your retirement. You can live and retire with confidence. Let Fullerton Financial Planning help you avoid these mistakes and make the best of your golden years. Schedule a call today.

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Sources:

1. *The return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost. Asset allocation and diversification are approaches to help manage investment risk. Asset allocation and diversification are not a guarantee to prevent investment loss. Past performance does not ensure future results.*

2. *Under the SECURE Act, in most circumstances, you must begin taking required minimum distributions from your 401(k) or other defined contribution plan in the year you turn 72. Withdrawals from your 401(k) or other defined contribution plans are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty.*

3. *The return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost. Asset allocation is an approach to help manage investment risk. Asset allocation does not guarantee against investment loss. Past performance does not guarantee future results.*

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Retirement Mistakes To Avoid
to Make the Most of Your Golden Years

1. Not Having a Strategy
2. Trading Stocks Too Frequently
3. Not Maximizing Tax-Deferred Savings
4. Prioritizing College Funding Over Retirement
5. Overlooking Health Care Costs
6. Not Adjusting Your Investment Approach
7. Retiring with Too Much Debt
8. Not Focusing on Your Health

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