HAAS Fydroski Financial Services, Inc.
Investments - Planning - Education

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10 Worst Mistakes People Make After Retirement

I came across this article on the internet from **The Financial Word** and thought it contained enough wisdom to pass on to my newsletter readers. The *"Comments"* after each of the ten points are my additional thoughts to what was written in the original article. Whether you are already retired or just contemplating retirement, there is a lot of insight and food for thought here.

From **The Financial Word**: Money mistakes are a common learning experience from which we can all grow, but when you are already in your retirement phase, the results can be a little more catastrophic. It's much easier to recover from mistakes when you are younger but retirees are depending on that nest egg and their ability to replenish savings is greatly diminished

1) Not Changing Lifestyle After Retirement

Among the biggest mistakes retirees make is not adjusting their expenses to their new budget dependent life. Those who have worked for many years usually find it hard to reconcile with the fact that food, clothing and entertainment expenses should be adjusted because they are no longer earning the same amount of money as they were while in the work force. For example, you might need to do a little less dining out and learn to enjoy more home cooked meals.

Many retirees also tend to forget to take into account healthcare and long term care costs that usually come into play as a person ages. If you have never considered this before, it's time to talk to a trusted financial planner to iron out your retirement planning. With some appropriate adjustments to your budgeting and proper planning, you'll make sure you are set for any eventuality.

Comment: A Retirement Budget Worksheet to estimate expenses and a projection of how long your money will last should be a first step in the retirement planning process. We can help with both.

2) Failing to Move to More Conservative Investments

Once you have retired, you can't afford large negative swings in your savings. You regularly hear financial advisors recommending a long term strategy and touting the strategy of leaving money in the market regardless of the ups and downs. That's because over time, the market, while very volatile at times, has historically ended up rising in the long term. When you retire however, you have to think more short term as you will need to access the cash. It's still probably smart to keep some money in more aggressive growth investments, but not nearly at the level you did when you were younger. A financial advisor can offer advice on how your investments should be diversified. You might not make as huge gains in net worth, but you will be protected.

Comment: Managing risk and especially managing losses in retirement accounts are an essential part of the Haas Financial Money Management Program. Research from the Financial Planning Association reinforces that we do need some growth to take place in our portfolios in retirement. We are more likely to run out of money by being too conservative than by being too aggressive. A sensible allocation is needed between short term cash needs and long term growth.

3) Applying for Social Security Too Early

Just because you are already eligible to apply for Social Security at 62 does not mean you should. If you start taking benefits at age 62 will get you about 25% less than what you would get on your full retirement age of 66. You will also get 32% less than if you wait until age 70.

If you have the means to pay your bills, try to delay your application for retirement benefits for a few years more. The benefit increase is maxed out by 70 years old and will not increase any further, so that's the target age you should shoot for.

Comment: Social Security is one of the few investments (perhaps the only one at this time) that can guarantee an 8% rate of return between Full Retirement Age and age 70. There is also a potential cost of living increase every year until you die. It may not be the right path for everyone but it makes sense for most. This option should be seriously explored and considered. All too often the decision to take Social Security before age 70 is an emotional decision ("I paid into it all those years, I want something out of it") and not a sound analytical financial decision.

4) Spending Too Much Money Too Soon

Before finalizing your retirement, you must take into consideration that you will only be living on a fixed amount of money. Oftentimes the amount of retirement savings looks pretty large, but retirees must keep in mind that money will have to last a very long time – hopefully a very, very long time! Avoid the temptation to spend large chunks of that nest egg early in retirement. The temptation to spend your money can be almost irresistible, but discipline is vital. Depleting your money beyond the interest that it earns will hurt the principal and would leave you with nothing after just a few years.

Comment: T his one is a real challenge because after we retire, everyone wants to cross-off the items on their bucket list as soon as possible while they are still healthy enough to do so. If we only knew how long we would be on this earth, it would be much easier to figure out how to allocate our retirement savings. It is not an easy decision. If a couple lives to be 65, it is likely at least one of them will live into their nineties. Will your retirement savings last over thirty years? Will your kids be able to support you in your later years (Think not)? There will never be enough money for everyone to be on Medicaid.

5) Failure To Be Aware Of Frauds and Scams

Retirees unfortunately are among the most targeted for scams. Be sure to consult an advisor prior to making any investment or laying out a large amount of cash on anything. Scammers will prey upon your desire to grow your savings.

Even if you are not retired or about to retire, always keep a certain level of skepticism when it comes to the investments being presented to you. Do your research first: ask about it and search for it online. You might just find out that this whole system is just an elaborate way for people to get money out of you.

Comment: Crooks and scam artists prey on the elderly. Remember, the Internal Revenue Service never calls or sends emails. You receive a letter on official letterhead. Never give out personal or account information on the internet or telephone unless you are absolutely sure to whom you are talking to. If something seems too good to be true, it probably is. There are very few free lunches in life.

6) Cashing Out Pension Too Soon

Retirees are easily swayed by the promise of a higher return once they try to put their money on a particular investment vehicle thus pushing them to cash out their entire pension. This is not always the best move to make: investments are highly unpredictable and it can be difficult to look for one that could pay just as much, or even more, as the pension over the long term.

Remember that cashing out on a pension early oftentimes comes at a big cost. Be extremely wary and weigh your options well. The longer your life, the more you are going to miss out on the benefits of the pension if you have cashed out early.

Comment: Pensions are a great benefit but rarely have a cost of living rider included. (Please reread my comments on Social Security again). With historical inflation of 3%, your purchasing power will be cut in half after thirty years. Thirty years ago a postage stamp cost 22 cents. Today a stamp costs 49 cents. That is inflation. How do you address inflation on a pension with no cost of living increase? Longevity does not make pensions the attractive option they once were. Pension decisions need to be made in light of your entire retirement savings and spending plan.

7) Not Being Effective Tax-Wise During Retirement

Having multiple retirement accounts may sound ideal but you have to remember that each retirement account is being taxed differently. If you do not find a way to take out your money from your assets and your accounts, you could end up paying more taxes that you actually have to.

Finding the most cost-efficient way of being taxed during retirement is a complicated manner so you might want to make sure that you have a trusted financial planner to help you along the way.

Comment: Clients often become so concerned with what their rate of return is, they fail to see the big picture. The real question is and should be, "What do I end up with in my pocket and then, ultimately, what will my heirs end up with?" That includes rate of return but also includes taxation, distribution strategies, estate planning etc.

8) Supporting Adult Working Children

Family is often hard to refuse, but you have to remember that your savings are fixed for the most part and your ability to earn back money taken from savings is greatly diminished in retirement. Your children are going to be much better equipped to recover from financial difficulties. Unless you are really sure you have the money to spare, avoid giving large monetary gifts or loans, especially if you are already out of the work force.

Remember that you will no longer be earning the same as you did when you still had a job. It is expected that your expenses will have already gone down by this time. This means that whatever money you get should be enough to cover only your personal expenses.

Comment: Another very difficult issue to deal with. It is tough to say "No" to our kids when they need or potentially need our help. However, you will be the one to run out of money and/or curtail your retirement plans.

9) Being House-Rich but Cash-Poor

People often pay for their mortgage for most of their life and, by the time they retire, end up with a lot of equity in the home and with little cash left. While houses appreciate in value, the costs of upkeep including taxes, utilities, services, repairs and maintenance is too much for a retiree to handle. Once you have decided to get out of the work force, it is assumed that your children should have already moved out of your house. You can downsize your living expenses by selling your house and moving in to a smaller home that you can afford. You can also invest the remaining money on more predictable income in order to support your new retirement lifestyle.

Comment: A house may contain a lot of memories but a happy home is wherever and whenever you make it part of your life.

10) Not Staying Active Socially and Physically

Possibly one of the worst things you can do when you retire is become reclusive and inactive. It's important to maintain social connections and frequently enjoy the company of friends and family or join social groups and activities that will enable social interaction with peers. The mind is like a muscle – if it is not exercised, its capabilities will fade. So in addition to continuing some sort of regular exercise habit, seniors should also exercise their brains. Reading books, solving puzzles and just simply engaging in conversation are all great ways to keep the brain sharp and functioning well into later life. Becoming reclusive and spending a lot of time in front of the television, while on occasion may offer relaxation, should not monopolize your time. Keeping active will not only help keep you mentally sharp and physically healthy, but will also elevate your mood and help you be happy well into your golden years!

Comment: Research shows that people who live active lives interacting with family and friends tend to be much happier than those who do not.

I hope that these ten points and my comments afterwards help to give insight and guidance as you journey through retirement. Haas Financial Services Inc is here to assist you on that journey.

As I write this newsletter, February looks to be another down month for the stock market. Based upon the daily/weekly/monthly research I receive, it comes as no real surprise. I positioned the investment models accordingly since January 1. It also appears that there may be more pain for the markets in the near future. I review the investment models every day and frequently make changes to adapt to current market conditions. Take good care!!!

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