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Private Wealth Management

Ten Mistakes That Can Undermine Your Retirement Savings

Planning slipups that can prevent a comfortable retirement

Even with the best laid plans, retirement savings can be decimated by the loss of a job, divorce or death, but just as much damage can be done by more subtle mistakes. Below are ten common mistakes that can prevent investors from reaching their retirement goals.

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1. **Not having a plan** – Participating in your retirement plan at work and opening an IRA is not a plan. Many individuals never map out how much money they will need or determine an appropriate asset allocation strategy to meet their goals. Smart retirement savers figure out what they will need, define a savings goal, and identify a plan to reach that goal. They focus on asset allocation and let it be the driver versus market timing. They monitor and rebalance as needed.

2. **Holding concentrated positions** – It is not uncommon for investors to accumulate a large position in their employer's stock only to see it suffer a big downtown just a few years before retirement. This happened in 2008 and undoubtedly forced some to delay their retirement plans. A concentrated position can represent a significant risk. Systematically selling concentrated positions well before retirement can help reduce that risk. Set a target for how much you need to sell, identify a date upon which you want to reach that target, and then regularly sell shares. For example, if you want to reduce your position by 24,000 shares in two years, sell 1,000 shares each month until you reach the target. Take the emotion out of it, so you don't have to think about it.

3. **Investing too little in stocks** – Whether due to the old rule of thumb (100 minus your age is your percentage allocation to stock) or just fear of losing money, many end up underinvested in equities. It's not uncommon to spend a third of your life in retirement. Don't let up on the gas too early.

4. **Being unrealistic** – Retirement savers do themselves no favors by overestimating their potential return or underestimating their spending in retirement. Be realistic about what you can earn on your nest egg and how much you will need to comfortably retire. In the early retirement years, many spend more. These are "the go-go years" with more travel and activities. As you progress in retirement you may slow down – "the slow-go years," and later be less able to go at all – "the no-go years." Honest budgeting accounts for different levels of spending throughout retirement. In general, it's better to overestimate your spending; you don't want to run out of money during retirement.

5. **Being too generous** – While it's hard to say no, you don't want to blow your retirement funds by being too generous with your adult children. Think long and hard about how much you can afford to contribute toward the down payment on a house, a lavish wedding, or even paying for recurring expenses like cell phones or insurance.

6. **Having more house than you need** – Do you really need four bedrooms when all the kids move out? Many find it is nice to go into retirement without the expense of maintaining a large home. Some even plan their retirement date to coincide with paying off their mortgage.

7. **Underestimating health care expenses and long-term care needs** – Supplemental health insurance policies like Medigap or long-term care insurance can be significant expenses. However, as with any insurance, it's important to budget to purchase adequate coverage to insure against an even costlier risk. Choosing to not buy the insurance doesn't make the risk go away. The same can be said of not having disability insurance during your prime earning years leading up to retirement.

8. **Underestimating life expectancy** – Assuming a life expectancy of 95 as part of a financial plan is not only realistic, but increasingly common. Even if you're not in the best health and longevity isn't common in your family, plan as if you will need your resources to last that long. You never want the success of your retirement plan to be contingent on you dying young.

9. **Failing to understand tax rules** – Tax mistakes can quickly eat up a chunk of your retirement. For example, some retirees leave employers, take a lump sum from a retirement account before age 59½, and fail to roll it over into an IRA. Those who do this may end up paying both income taxes and even a 10% penalty on the lump sum. On the high end, you can lose almost 50% of the amount withdrawn to taxes and penalties.

10. **Not following distribution rules –** In the year you turn 70½, you are required to begin taking distributions from your retirement accounts and the consequences of not doing so are costly. Failure to take a Required Minimum Distribution (RMD) results in a penalty of 50% on the amount you failed to withdraw, plus you'll still have to take the distribution and then pay taxes on the amount.