TEN COMMON RETIREMENT MISTAKES

In a sense, you have been planning for your retirement ever since you started working. Maybe you have been contributing to a 401(k) plan or maybe you've been socking away money in an IRA, but without a doubt, you are 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 envisioned. Bad planning is often the culprit. What follows is a list of ten common mistakes that retirement-age individuals often make as they try to manage their own financial affairs. Naturally, our careful planning will 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, and at age 65, life expectancy is 81.6 years for a man and 84.5 years for a woman.* 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 his or her 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 impact of inflation.** A couple will often say something like, "All we need is $60,000 per year, for the next 20 years. It's simple." It is not, however, quite as simple as it may seem. Assuming a 4-percent inflation rate for the next 10 years, the couple would need almost $90,000 if they wanted to maintain their current lifestyle. If they lived 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 the retirement community to scramble for 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.

*National Center for Health Statistics, *Health, United States, 2004*, accessed January 2006, <http://www.cdc.gov/nchs/data/hus/hus04trend.pdf#027>.

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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 65 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. Consult with a trusted wealth manager.

5. **Incorrectly titling your assets.** It is not uncommon for a client to own accounts that name an estate as beneficiary, fail to list a contingent beneficiary, or that 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 might 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, and it could save you millions of dollars.

6. **Overlooking the impact 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 is 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. To complicate matters, much of this legislation is set to expire in 2011. 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 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 each other. By investing in large, medium, and small companies; by holding bonds, real estate, and cash; by owning international assets; and by investing in both the growth and value style boxes, you can capture all of the market's upswings while gaining solid downside protection.

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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 MSNBC 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 your financial needs.** Before meeting with a wealth management specialist, investors often believe that their retirement needs are met. Despite their own confidence, many of these individuals are completely unprepared for the future, and lack any semblance of 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 a retirement plan for you and your family. For financial security in retirement, seek professional guidance.
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 all of these reasons, it is critical that you meet with a retirement wealth manager—at least annually—so that you can sleep soundly and enjoy your retirement years.

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