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14 Mistakes In and Affecting Retirement

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Retirement has loomed on the horizon for years, and as you get older the thought of actually exiting the workforce to enjoy that time becomes more of a reality. Or maybe you are already there and realize that money management is more crucial now than ever. So while there are several issues that can affect money matters in retirement, these 14 have been selected to highlight common concerns many face today.

1. Leaving the workforce too early

"I hate my boss, my coworkers and this stupid job!" Sometimes the decision to exit the workforce is more emotional than logical. Yet leaving gainful employment too early will reduce your time to save money and extend the time you'll need it.

2. Planning to stay on the job indefinitely

The reason for this may be a lack of a retirement nest egg or because you really love your job and can't think of doing anything else. You could be "forced to retire" because of organizational changes, buyouts, or health-related issues, illustrating that the decision to work isn't always yours to make. A 2015 survey from the Transamerica Center for Retirement Studies stated that 60% of those surveyed left the work force earlier than planned. So Bob Niedt advices, "Assume the worst, and save early and often."

3. Starting to save for "retirement" too late in life

Bankrate says this is the single biggest regret Americans have and the Transamerica survey referenced earlier points out that 41% of retirees worry they will outlive their savings and investments. What should you do: consistently save small amount of money and realize the power of compounding returns. Even the government offers incentives to procrastinators by allowing additional "catch-up" contributions to your 401k and IRA if you are over 50 years old.

4. Borrowing from your 401k

If your plan allows it, it can be tempting since it's your money and you usually have 5 years to pay it back with interest. It's a bad idea for several reasons. You'll likely reduce and/or stop new contributions during the loan period. As a result, you're not only not building up "your nest egg," but you're sacrificing employer matches and the investment growth from the missed contributions and the loan dollars. Additionally, you're paying interest on the loan with after-tax dollars and then paying tax again when the funds are withdrawn. If you terminate your job, you usually have 60 days to pay back the loan or else it is considered a distribution and taxed as income and may be subject to penalties. If you die during the loan period, it complicates issues for your heirs. The bottom line: apart from a dire emergency, explore other options of financing.

5. **Cashing in on Social Security too early**

While you get a discounted amount at age 62 and 100% of your benefit at your Full Retirement Age (FRA for short), waiting until age 70 is often very prudent. If you claim at age 62, your monthly benefit will be reduced by **25%.** At FRA, currently age 66 and gradually rising to 67 for those born after 1959, you get 100% of your benefit amount. But each year you wait to start your benefits after your FRA, you increase the annual benefit amount by **8%**; that can be a **32% boost** in benefits! At times, it makes sense to dip into your investments or work longer if needed to get these "Delayed Retirement Credits," this guaranteed 8% increase. This delay of benefits can work well for couples where the wife is younger and /or expected to live longer. Widows and divorced spouses have other strategies to consider.

6. **Cashing out your Pension too Early**

While the allure of a higher investment return may tempt you to cash out or rollover your entire pension, realize that you now assume all the risk. It can be difficult to find an investment that could pay just as much, or even more, over the long term, especially if you live a long life. There are several issues to consider; for example, the amount of the payout options, the age difference between you and your spouse and the stability of the pension company. So weigh your options carefully.

7. **Overspending in the first few years**

"Why not spend a little? We have more time, fewer commitments, our health and many plans to accomplish?" According to the Employee Benefit Research Institute, nearly 46% of retired households spent more annually in their first two retirement years than they did in the years prior to retiring. The consequences for doing this aren't always considered and budgeting for the long-haul on a fixed amount of money can be overlooked.

8. **Decluttering too quickly**

Certain records need to be kept: professional records, records relating to purchase and capital improvements on your home, purchases of stocks and taxable investments, non-deductible IRA contributions, etc. These documents help meet requirements of various laws and/or determine cost basis.

9. **Too much "Funding" of your Kids / Supporting Adult Working Children**

Paying for college tuition, weddings, their living in your home as adults, "loans" to them, etc. can drastically cut into retirement savings. Determine ahead of time what is appropriate expenditures, communicate that to them and help them explore funding options. Remember, your children have more time to recover from financial difficulties than you do and you in time don't want to have to live in their basement!

10. **Shying away from the stock market**

"It's just too risky and this is all I have!" you decry. Nothing comes close to the average annual stock market return since 1926, not CDs, bonds, cash accounts, etc. Remember there is probably a greater risk of losing Purchasing Power than there is of losing Principal! Said another way, avoiding the stock market does not eliminate your risk, but shifts it to the possibility of inflation outpacing returns on your money. The solution: a well diversified portfolio that includes stocks and bonds of various size companies, both domestic and foreign, and local, federal and/or international governments. The bottom line: Reduce your exposure to stocks as you age but still keep them as part of the nest egg since it might need to last 30+ years.

11. Getting Scammed or not being aware of Frauds

Stacy Rapacon reports, "The FBI notes that seniors are prime targets for such criminals because of their presumed wealth, relatively trusting nature and typical unwillingness to report these crimes." According to the FTC, in 2015, Americans lost $765 million to get-rich-quick and other scams. 37% of the more than 3 million complaints received last year were filed by victims ages 60 and older. Here are some of the "obvious" signs of a scam: guarantees of incredible returns in a short time frame with little or no risk, request to wire money or paying a fee before you win something, demanding bank account info, credit card numbers or other personal information, and/or immediate decisions or discouraging advice from an impartial third party or trusted advisor.

12. Being "House-rich" but "Cash-poor"

While houses generally have appreciated in value, so too have the costs to operate them has also increased. At what point does it make sense to sell? Here are some questions to ask yourself: Has the cost of taxes, utilities, services, maintenance, repairs, etc. become too much? Is "rightsizing" your living expenses by selling your house and moving into a smaller home or into a retirement community a better option? Would downsizing provide needed cash?

13. Relocating on a whim

There is the allure of warmer climates in the winter, but should you move? Before you relocate, thoroughly investigate the "desired" area and collect data on the people, lifestyle, pace of life, language, culture, etc. Do this through an extended vacation. Discovering these characteristics is particularly important if you're considering retiring overseas. Also consider first renting in that area before buying something you could regret later.

14. Not Staying Physically or Socially Active

Being reclusive and inactive will cost you in so many ways. Living out your calling and purpose in life will help you maintain social connections, develop your mind, keep physically healthy, stretch your faith and elevate your outlook on life.

Sources:

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