BETTER MONEY DECISIONS

5 SERIOUS MISTAKES TO AVOID IN RETIREMENT

1 Miscalculating how much you need to retire

You have the time but do you have the money? That's a question we ask clients nearing retirement. Everyone has plans for what they want to do now that they are no longer working, but many things on your bucket list come with a hefty price tag.

WHAT CAN YOU DO?

1. **Stick to a budget:** That includes creating one to stick to. As workers, we get used to the steady flow of income and spending a little more here and there during your working years does not have the devastating impact that it does in retirement when there is a finite set of assets.

2. **Account for Inflation:** we have gotten used to low inflation rates and if you have recently retired it may seem like they will be low forever. The one thing we can count on is change and rates will rise in the future.

3. **Selective luxury:** Most people do not have an unlimited budget so decisions need to be made selectively. Do you travel to Europe or buy a new car? Chances are you cannot do both, at least in the same year.

FIRST STEP

A comprehensive financial plan can help you understand how much you can reasonably spend during retirement based on your assets, pensions, social security and living expenses. Do this BEFORE you retire to avoid making spending mistakes. If you don't like the results you can always decide to work a few years longer. That's not possible if you have already retired.

2 Taking too much or too little investment risk

Financial markets fluctuate daily, which means your account values will go up and down. Even in the most moderate investments, there is risk of losing money. On the flip side, not taking the appropriate amount of risk can have an impact on your retirement savings, because you need to keep pace with inflation! By striking the right balance for your own objectives and risk tolerance, you have a greater probability of generating the return you need to meet your goals.

The standard guide in retirement is to allocate the bond portion of your portfolio to a percentage equal to your age; but there are so many better ways to think about this in retirement. Ask these questions:

1. **What are your sources of income?** Having sources of guaranteed income such as a pension and social security can mitigate the risk of stock market fluctuations.

2. **Do those sources cover your basic expenses?** If so, this mitigates a potentially serious problem called "sequence of returns risk."

3. **What risk level is comfortable for you?** Crazy market fluctuations can cause some people to freak out, while others take downturns with a grain of salt. This is a very individual decision.

4. **Does your portfolio have asset class diversification?** Markets around the world do not always move up and down in sync. Having investments spread across all major asset classes will decrease volatility.

NEXT STEP

Find a financial professional who is a fiduciary, who can determine your correct level of risk and design a portfolio to match. Investors are often swayed by emotions into making bad financial decisions. Those who sold everything in 2008 would have been fine by 2010, as markets rallied back after the financial crisis. There are ways to prepare for market downturns without costing your nest egg.

3 Underestimating healthcare costs

Next to housing, healthcare is the second biggest expense for retirees. Medicare doesn't completely cover all medical expenses, which is why many people choose to buy supplemental insurance. In addition, long-term care expenses are often higher than you may think.

- Medicare does not cover the following: vision, dental, hearing care, dentures, vitamins, long term or custodial care.
- Medicare has no out-of-pocket limits for covered expenses. That could mean big medical bills during a health crisis.
- Rising prescription costs, and new laws limiting prescription coverage will require participants to pay 25% of prescription costs by 2020.
- Medigap policies (Part B) increase premiums regularly.

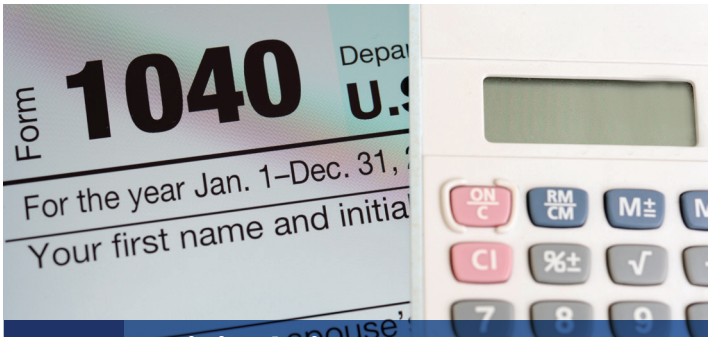
EXPECTED HEALTHCARE COSTS:

A 65-year-old man:	A 65-year-old woman:	A 65-year-old couple:
$136,000	**$178,000**	**$266,000**

Women generally live longer than men, and couples live longer than single people, which accounts for the differences in cost.

NEXT STEP

Make sure you have the right Medicare insurance for your situation. If you travel overseas or even extensively in the United State, many Medicare Part C (Medicare Advantage) policies do not easily provide coverage if you become ill. Flexibility in your choice of doctors is also a factor to consider.



4 Misjudging your retirement tax rate

Most retirement savings are invested in tax-deferred accounts, such as a 401(k) or Individual Retirement Account. But IRA and 401(k) withdrawals, pensions and Social Security benefits are taxable. It's a common mistake to underestimate your tax bracket in retirement.

- **Evaluate whether it makes sense to pay off your mortgage:** In some cases, paying off your mortgage can free up money for taxes and other expenses, which gives you more flexibility. However, in other situations it can make you "house poor," because you have drained accounts that you could be using to pay living expenses. There's no one-size-fits-all answer, so it's best to discuss this question with your financial advisor.
- **Decrease how much you spend each month:** Lowering your expenses will decrease how much you withdraw from your accounts. It can also mean less taxable income. This is another question to discuss with your advisor and include in comprehensive planning.
- **Convert your 401(k) or traditional IRA account to a Roth IRA:** People live longer than they used to, so making your money last as long as possible crucial. A traditional IRA requires you to take a minimum yearly distribution after you turn 70 ½, but you can keep your money in a Roth IRA as long as you want, without penalties.

NEXT STEP

Consider a financial plan to help you navigate the complicated world of conversions and withdrawals. This can help you avoid nasty tax surprises.

5 Applying for Social Security too soon

Making the decision about when to take your benefit is unique to each individual situation. What's right for one person might not be for another. There are many factors to consider. Have you coordinated the benefit strategy with your spouse? Do you plan on working after you retire? Do you have other sources of income? Do you anticipate any financial situations regarding your health or other family issues?

THE LONGER YOU WAIT, THE MORE YOU GET.

If you collect at age 62, your benefits are reduced by 75% for the rest of your life. If you wait until full retirement age, you receive 100% of your benefit. If you wait until age 70, you receive more than 100%!

Year Born	Full Retirement Age
1943-1954	66 years
1955	66 years, 2 months
1956	66 years, 4 months
1957	66 years, 6 months
1958	66 years, 8 months
1959	66 years, 10 months
1960 and later	67 years

NEXT STEP

Employees at the Social Security Administration cannot provide advice as to the best time for claiming your benefit. In addition, only 22% of financial professionals are experts in Social Security so to be sure you are getting the right advice!

DID YOU KNOW?

Researchers found that investors who work with an advisor typically see a higher return than those who don't.[1]

As you approach retirement, your financial situation becomes more complex. It's crucial to identify the correct investment mix to generate the required return, while managing internal expense ratios and tax consequences.

An experienced financial advisor offers custom portfolio management and up-to-the-minute investment research.

AN EXPERIENCED FINANCIAL ADVISOR HAS THE KNOWLEDGE AND INSIGHT TO:

- Understand your goals, your dreams and your values.
- Help create an investment strategy to meet your short- and long- term goals.
- Make sense of today's dizzying array of investments, from stocks and bonds to exchange-traded funds, mutual funds, real estate investment trusts, retirement accounts, and other investment vehicles.
- Serve as a behavioral coach and financial educator to keep you focused on your objectives and weather bouts of financial-market volatility.
- Continuously monitor all the elements of your financial life, not just your investment portfolio

[1] "Quantifying Advisor Alpha," The Vanguard Group, August 2016

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