

Top 10 Retirement Planning Mistakes

A Consumer's Guide



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Please feel free to email this list to whomever you think would benefit from reading it.

THANK YOU.



Are you thinking about retiring? There is certainly a lot to think about and many questions to be answered. As someone who has coached quite a few into retirement, I thought it would be beneficial to pull together a list of some of the more common challenges that I have seen over the years and share them with you.

Here's wishing you a *Worry Free Retirement!*

-James A. Daniel, CFP®

Beginning January 1, 2011 - every single day more than 10,000 baby boomers will reach the age of 65.

Are YOU ready for Retirement?

TOP 10 RETIREMENT PLANNING MISTAKES

1. Not Understanding Cashflow Needs:

So why exactly is this important? From a financial planner's perspective, this is the number one question that needs to be answered when someone is considering retirement. If you don't know what your annual expenses, debts and estimated taxes are going to be in retirement it is nearly impossible to figure out if you have accumulated enough assets to sustain your needs throughout retirement.

TIP: You can simply do a manual log of expenses over several months to get an average or subscribe to an online service such as Mint.com for an automatic way to track.

2. Failing to Factor in Inflation:

Go back to item #1 above. Did you calculate your annual cashflow needs? Guess what? That number is going to be higher a couple of years down the road. When you are planning your retirement you must factor in for inflation. This simply means that things are going to cost more in the future, therefore requiring more cashflow to maintain the same lifestyle.

3. Not adjusting your Investment Strategy well before retirement:

Are you still investing the same in your 401k / IRA as you were 10 or 20 years ago? Odds are that when you began investing you had a fairly aggressive risk tolerance as you figured you had a decade or longer until retirement. Well, if you are reading this then you are probably within a few years of retiring and should probably take a look at that investment strategy. One major drop in the market could set your retirement date back several years.

4. Chasing Returns:

Retirement isn't exactly the time to begin daytrading your retirement account. If you feel you must hit homeruns (big returns) to either impress your golf buddies or maintain your lifestyle, then maybe you should reconsider transitioning into retirement. If you really have the urge to speculate and have enough assets consider setting up a separate "play" account. Don't gamble with your retirement nest egg.

5. Retiring with too much debt:

While entering retirement debt free is always the best scenario, it isn't uncommon for folks to retire with a mortgage on their primary residence. What you want to be careful of is retiring with too much debt. Constantly worrying about draining your retirement accounts to keep up with mortgage payments or credit card bills isn't an enjoyable retirement.

6. Failing to consider Health Related costs:

Two items to consider here:

1. If you are retiring early (before age 65 / Medicare eligibility), you might want to shop around for Health Insurance to get cost estimates. Many forget to include this in their budget and getting an individual policy to bridge the gap to Medicare can be quite expensive.
2. Prior to transitioning into retirement you need to also understand what kind of financial impact a major health issue or Long Term Care illness could have on your retirement assets.

TIP: Make sure to budget for Medicare Supplement insurance and Prescription Drug Coverage in your monthly cashflow. For an added measure of safety for your assets consider exploring Long Term Care Insurance to help cover assisted living / nursing care. If you are moving into retirement at least go in fully aware of insurance costs and benefits vs. the risk of self insuring.

7. Not understanding required rate of return needed to support Retirement lifestyle:

Many would consider retiring with \$1,000,000 in retirement assets pretty nice, but if you require \$100,000 per year in distributions to cover your annual lifestyle then you might want to rethink retirement or perhaps your budget. That is a 10% withdrawal rate without figuring for taxes. Considering the S&P 500 is **15% below** where it was 11 years ago (as of 09/2011) you better have one heck of a good investment strategy to maintain that kind of distribution or else a fairly short retirement span. There are still many ways to generate moderate returns in today's market, however you need to understand up front what is required to sustain your assets throughout retirement.

8. Failing to develop proper distribution strategy:

You have spent a lifetime saving up for retirement, now exactly how do you start taking money from your accounts? It is a confusing question for many: 401k's, IRA's, Roth IRA's, Brokerage accounts and Cash Savings, where do you start? Prior to moving into retirement have a gameplan for how and when you will take distributions from investments to supplement other income sources such as Pensions, Social Security, or part-time Employment Income.

9. Not understanding the rules regarding withdrawals from 401k's, IRA's, Pensions and Annuities:

What do you do with that 401k once you retire? Should you transfer it to a "rollover" IRA or take lump sum distributions? Did you know that the IRS **requires** you to take distributions from your IRA once you reach age 70 ½ (called an RMD)? How about that Pension: should you do 100% joint and survivor option, straight life option or take a lump sum if eligible? **KNOW YOUR OPTIONS AND FIGURE OUT WHICH IS BEST FOR YOUR SITUATION.**

10. Failing to understand long term strategy and making decisions out of fear:

One of the largest issues with retirement is not having a well thought out gameplan. Do you really understand how your cashflow needs and investment strategy are related? Do you have a strategy so that you can avoid making emotional decisions? Having a dynamic financial plan will help you make the transition with confidence and definitely help reduce anxiety!

Summary:

Retirement should be an exciting and stress free time in your life, and it can be. By taking a little time to develop your retirement plan and avoiding the pitfalls mentioned in this report, you can make the step with confidence.

**RETIREMENT IS THE BIGGEST FINANCIAL
DECISION YOU WILL EVER MAKE, DOESN'T IT
MAKE SENSE TO HAVE A PLAN FOR IT?**

Where to get help:

If you are considering retirement and would like to develop a strategy, consider spending a few minutes with a Certified Financial Planner™. At The Advisory Firm we specialize in helping clients transition into retirement. Give us a call to set up a complimentary consultation 678-566-3711.

Other Resources:

- **National Association of Personal Financial Advisors:** <http://www.napfa.org>
- **Financial Planning Association:** <http://www.fpanet.org>
- **Certified Financial Planner website:** <http://www.cfp.net>

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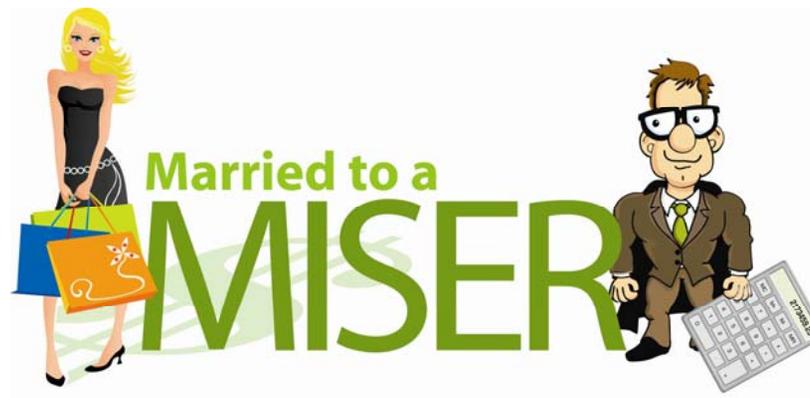


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