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5 Mistakes to Avoid in Retirement

From taking too much risk to ignoring taxes and inflation, future retirees have a lot of potholes to dodge.

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Americans aren't saving enough for retirement, and they know it.

According to the Employee Benefit Research Institute, only 60% of American workers feel confident about having enough money for a comfortable retirement.

And frankly, based on the people I talk with every day as a financial adviser, that number seems high.

People worry about having to downsize during retirement. They worry about still taking care of kids, grandkids and elderly parents at an age when they thought they'd be responsible only for themselves. And they worry about how their 401(k)s can possibly make up for the guaranteed pensions their parents counted on in retirement.

In some cases, the stress and concern have folks pretty much paralyzed into inaction.

Of course, that only makes things worse. **Not doing anything at all is one sure way to fail in retirement.** Here are five more mistakes to avoid:

1. SHOOTING FOR THE STARS.

When the market is up (as it is currently), people with a moderate-risk portfolio often voice disappointment that they're only getting a 7% or 8% rate of return. Maybe they have a golf buddy who tells them he earned 18% last year, or somebody at the neighborhood barbecue bragged about getting 14%.

But the thing is, averages are just that – averages. You could have a best year with a 45% rate of return and be thrilled. But if that same portfolio, because of how it's built, has a 35% loss in its worst year, it could be devastating. Especially if that worst year is early in your retirement.

Why take unnecessary risk? Part of building your long-term retirement plan is figuring out how much you'll need to earn each year to create a comfortable lifestyle. Now is not the time to deviate from that plan.

2. IGNORING TAXES

Retirees often underestimate how the lack of a tax-efficient plan can affect what they pay. Most are used to a pretty straightforward tax return, with income coming directly from an employer.

All that changes in retirement, as you pull income from various places – some taxable, some not. So, for example, if an unexpected expense comes up – whether it's a necessity (replacing a car) or something more frivolous (a family cruise) – and you withdraw the money for it from a traditional IRA, you could bump yourself into a higher tax bracket. Remember, income from that money is 100% taxable. And part of your Social Security may be, as well, if your total income reaches a certain level.

In retirement, it isn't just about how much income you're getting, but where it's coming from. Talk to your adviser about putting together a withdrawal sequence that makes the most of your money with an income tax-free Roth account, your IRA and other investments, and Social Security.

3. NOT KNOWING HOW MUCH MONEY YOU'LL NEED, AND NOT ADJUSTING FOR INFLATION.

Living paycheck to paycheck in retirement just isn't smart. According to a Morningstar study, a retiree who wants a 90% probability of achieving his retirement income goal with a 30-year time horizon would have an initial withdrawal rate of 2.8%. That's a hard number to stick to when you're living month to month, especially considering a 2.8% withdrawal on a $600,000 portfolio amounts to just $1,400 a month.

Having a written income plan can help you stabilize your paychecks. To put your plan together, look at how much you'll receive in Social Security benefits and any pensions you've earned. If you don't have a pension, you may wish to create a steady and reliable income stream with some type of annuity. And be sure to keep inflation in mind. In 1972, you could buy the whole McDonald's menu for $5.42; today, in many American cities, that won't get you a Big Mac and a Coke.

Although year to year it may not seem as if prices increase all that much, over a 20- to 30-year retirement, the differences could be drastic.

4. NOT PLANNING FOR LONG-TERM CARE OR INCREASED HEALTH COSTS.

According to the Peterson Center on Healthcare and Kaiser Family Foundation, total health costs are set to increase by about 5% annually through 2025. But even if you factor that amount into your budget, it might not be enough. As you age, your expenses will likely rise even more. If you need specialized care, and you don't have a plan for how to pay for it, it could affect your entire retirement.

According to the 2016 "Genworth Cost of Care Survey," the national median cost of a semi-private room in a nursing home in 2016 was $6,844 per month. In 2036, it is expected to increase to $12,361. Your financial adviser can explain options that could help you prepare now – and the sooner you decide what you want, the less it's likely to cost.

5. LETTING YOUR KIDS CLEAN UP THE MESS.

Maybe it's because we just don't like to think about dying … or maybe, because Americans are living so much longer, we think we'll have plenty of time to prepare. But if you don't have a proper estate plan, your heirs could spend years figuring out who gets what.

At the very least, make sure your beneficiaries are up to date on insurance policies and retirement accounts. I've heard countless stories of people who passed away with an ex-spouse still listed as the beneficiary on a 401(k) or IRA – and some have been remarried for years! Depending on your individual needs, it's also important to make sure your will is updated and that you set up a power of attorney for any health care or financial decisions. An experienced estate-planning attorney can coordinate with your financial adviser and a tax professional to make sure your wishes are made clear.

No one can predict the future, but you can plan for it. Don't let fear hold you back. Preparation can help ease your anxiety and put you on the right track.

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