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Retirees not immune from financial mistakes in retirement

Many retirees believe that having completed the savings accumulation stage, the remaining years should be worry free.

They've sweated and saved a retirement-worthy nest egg, they reason. Now it's time to relax and stop fretting about money missteps.

Not so fast, say experts. Sadly, there's no life stage at which people are immune from major monetary meltdowns. Just as younger people can err by not saving early or often enough, older folks can blunder by being too conservative with investments, giving too much money to adult offspring and/or erring in myriad other ways.

"We see a lot of errors made once people have retired," says Gregory S. De Jong, financial advisor with Savant Capital Management in Naperville. "Many are not life threatening. But they certainly diminish their wealth, and often limit their flexibility."

Retirement plans can fail due to the mistakes retirees make, adds Hagen M. Pruemm, founder of SIS Financial Group, a Hoffman Estates investment advisory firm.

Agreeing is Josh Alpert, founder and president of Alpert Retirement Advising in Southfield, Michigan, who equates retirement to climbing earth's tallest peak. "Getting to the top of Mt. Everest is only half the battle," he says. "The other half is going down."

Retirees can eliminate unneeded worry about their life savings in their crucial final life stage by sidestepping most if not all the following miscues.

Being too conservatively invested. De Jong sees few errors committed more frequently than this. "Peoples' tendency is to hold too much of their assets in fixed-income investments," he says. "That allows them to go broke safely."

Most fixed-income investments do not keep up with the inflation rate, or they beat it only by a hair. Retirees find stability of principal very appealing, but earnings they reap on fixed-income investments will not keep pace with rising costs of living over time.

"They need to realize some fluctuation of their principal is okay," De Jong says. "We like to see an appropriate balance between growth and fixed-income investments, tied of course to what their financial needs and risk tolerances are."

Being confused about qualified plans. Pruemm finds many retirees believe minimum required distributions (RMDs), which people must begin taking at 70-1/2 years of age from qualified plans, can be aggregated over all qualified accounts, including 401ks, 403bs, 457s, IRAs and SEP IRAs. "That's not true," he says.

"You may combine all your IRAs' calculated RMDs and take those distributions from one of your IRAs. But you cannot take your RMD from your IRA and ignore your 401k. That would cause a 50 percent excise tax penalty, which is nondeductible, and that can be a very costly mistake."

Failing to plan for RMDs. An RMD planning strategy is essential in preserving retirement account assets and being able to take advantage of that tax shelter as long as possible. So says Dennis Notchick, registered investment advisor with Safeguard Investment Advisory Group in San Diego, California.

"The last thing (retirees) need is to have to sell stocks as markets are going down just to satisfy their RMD. They are depleting their retirement accounts faster by selling while stocks are going down and not getting the full rebound when markets recover."

Some advisors urge a two-bucket strategy. In the first bucket, place safe investments sizable enough for 5 to 10 years of living expenses. Reserve the second bucket for longer-term, higher-risk investments. Tap the first in down stock market years, the second in up market years. When the market soars, draw enough from the second bucket to fund a year of living expenses and partly replenish the first bucket.

"The secret is not selling equities when they're down," De Jong says. "Even if someone has 70 percent of their assets in equities, they have 30 percent in fixed income, and that probably would cover at least five years of their income needs."

Delaying Social Security streams. John Eichenberry, president of Eichenberry Retirement Planning in Lima, Ohio, asks clients if they think the federal government will tax more or less in 5 to 10 years. The response is typically "more."

If the expectation is more, it may make sense to take from 401ks in one's 60s.

Doing so could allow retirees to postpone the Social Security payment stream, knowing payouts grow yearly after full retirement age. "Consider delaying your Social Security benefits to an older age, so you can get higher payouts," he advises.

Michael Herndon, vice president of financial resilience for AARP in Washington, D.C, agrees. You may be able to "delay claiming (Social Security) a bit and pull on other assets, because once you've made that claim you've set it," he says. "For every year you hold off taking your full benefits, they grow by eight percent up to age 70. AARP has a Social Security benefits calculator that can help you decide."

Not having an estate plan. Retirees can help minimize unnecessary infighting over assets among their heirs by creating comprehensive estate plans.

"Without an estate plan, or with an improper estate plan, the estate will go through probate, which is a long process," Alpert says.

"If something is challenged in probate, it takes even longer, and that's when fighting can take place. I see these scenarios occur all the time."

Bailing out adult offspring. Many retirees have a tendency to want to help adult sons and daughters out of financial crises. "The parental instincts lead to poor financial instincts," De Jong says.

"Bring in someone else to help out in that decision. Perhaps it's an accountant, an attorney or a financial advisor. That will help remove some of the emotions from the decision. And whatever is decided should be documented, because otherwise you are planting landmines that will go off when your estate is settled.

"Virtually everyone I talk to tells me they want to treat all their children the same way. But when they lose track of what they lent to Suzie and how much was paid back, that's when it breeds resentment among her siblings." ■