8 Blunders to Avoid in Retirement

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You're about to approach one of the biggest milestones in your lifetime: retirement. For many retirees, this is a momentous event that gives you much needed time for family, relaxation and to enjoy hobbies. For others, this may create apprehension and fear. But, it doesn't have to be that way. With the proper planning strategy, you can move toward your future with confidence and excitement. **Avoiding these common mistakes during retirement can put you on the right path to enjoying your second act.**

01

Failing to incorporate “extra” expenses into your financial plan.

Many assume that living expenses decrease during retirement years, but usually the opposite is true. Expenses often increase in retirement—especially early on—because people finally have the time to travel, pursue their passions or discover a new hobby. It’s important to incorporate those “extra” expenses (including healthcare costs) into your

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02

Underestimating the cost of healthcare.

The rising cost of healthcare weighs heavily on the minds of many retirees. A healthy 65-year-old retiring now can expect to pay close to $165,000 for healthcare needs in retirement. Out-of-pocket expenses, unforeseen accidents, Medicare premiums, prescription medications, long-term care, etc. should all be factored into healthcare costs.* Saving for healthcare expenses in a Health Savings Account (HSA) and living a healthy lifestyle may help you address healthcare costs during retirement.

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*Source: Fidelity Investments, "2024 Retiree Health Care Cost Estimate," Aug. 8, 2024.

03

Inadequately accounting for taxes.

Did you know that most forms of retirement income are taxable? This includes pension income and sometimes Social Security, as well as interest, dividends and capital gains on any non-retirement accounts. You're not only changing your income, but your income sources as well. For example, up to 85% of your Social Security benefits may be taxable.* It's important to appropriately estimate your taxable income and ensure you have the correct amount of tax withholdings." There are investment options and tax planning that can be done to make your retirement income more tax-efficient.

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*Source: https://www.ssa.gov/planners/taxes.html

04

Failing to adjust your financial plan when retiring earlier than projected.

For some, early retirement is a planned event that has been integrated into their retirement plan. For others, early retirement may be a surprising or even forced event that can have a big impact on their financial plan. Whether job loss, health problems or taking care of a loved one causes you to leave the workforce sooner than expected, adjustments will be necessary to account for your retirement savings needing to last longer.

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Funding unbudgeted expenses for loved ones.

It's not uncommon to plan for the funding of life events, such as college education for your children/grandchildren, assistance for your aging parents or even a dream trip for the whole family. If these high-cost items aren't incorporated into your financial plan, their impact can have long-term repercussions. Knowing this could potentially put you in financial jeopardy down the road, be selective about how and when you support those you care about. Try to think about these decisions with both your head and your heart.

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Underestimating your longevity.

Human life expectancy is climbing higher and higher. Because we don't know the date of our death, it's challenging to anticipate the length of time our retirement savings should last. The biggest fear can then become outliving your money. That's why it is so important to accurately gauge your life expectancy to reduce longevity risk – the risk of outliving your retirement savings. Your financial advisor can help determine the amount of years your nest egg needs to last—or recommend insurance products that can pay you an income for your lifetime—to provide confidence and properly prepare for advanced age.

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07

Relying solely on Social Security to cover your living expenses.

For many retirees, Social Security is a major source of income. There are many options when it comes to how and when to claim your Social Security benefits. Engaging a trusted financial professional will help you determine the right strategy for your specific needs. However, in order to live a comfortable retirement, you may need more than just Social Security. Retirement savings may include pensions, investment accounts, 401(k) contributions and more. The earlier you start saving, the more you can let time work on your side to help you grow your nest egg.

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08

Forgetting about Required Minimum Distributions (RMDs).

Once you reach age 73, you are required to take distributions from your qualified retirement accounts such as a traditional IRA or a 401(k). The amount is based on a formula that considers your age and account balance. If you don't take these RMDs, penalties can be steep with taxes up to 25% of the amount you were supposed to withdraw. Keeping up with the rules around RMDs can be challenging. Make sure you work with your advisor to calculate your RMDs correctly and take them every year to avoid penalties.*

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*Source: https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-required-minimum-distributions

Ready to talk?
Contact us today!

Retirement doesn't have to be scary. Talk to your financial planner to discuss your retirement plan. In addition to their valuable advice, they can serve as your accountability partner to help ensure you don't fall victim to these common retirement mistakes.

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