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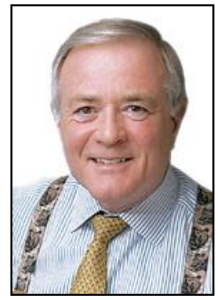

William Rutherford

OP-ED: Want better retirement years? Follow these rules

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Much has been written about the classic financial mistakes that plague investors, family businesses, corporations and charities. Similar financial missteps also plague retirees. The beginning of a new decade is a good time to review these.

Calling them "mistakes" may be a bit harsh, because not all of them represent errors in judgment. Yet whether they result from ignorance or fate, we need to be aware of them as we plan for and enter retirement.

Leaving work too early

Adding years of earnings and savings can add significantly to the investment portfolio one will rely on in retirement. Also, since Social Security benefits rise about 8 percent for every year one delays receiving them, waiting a few years to apply for benefits can provide greater retirement income. Filing for monthly benefits before reaching Social Security's Full Retirement Age (FRA) can mean comparatively smaller monthly payments. If possible, delay claiming Social Security until one must file for it, and see significantly more monthly benefits.

Underestimating medical bills

According to the latest estimate from the Center for Retirement Research at Boston College, the average retiree will need at least $4,300 per year to pay for future health care costs. Medicare will not pay for everything. That $4,300 represents after-tax, out-of-pocket costs and accounts for dental, vision and long-term care.

Taking potential for longevity too lightly

Actuaries at the Social Security Administration project that around a third of today's 65-year-olds will live to age 90, with about one in seven living 95 years or longer. The prospect of a retirement being 20-30 years or longer is not unreasonable, yet there is still a lingering cultural assumption that our retirements might duplicate the sometimes relatively brief ones of previous generations.

Withdrawing too much each year

You may have heard of the "4 percent rule" – a guideline stating that retirees should take out only about 4 percent of their retirement savings annually if they want their income to last for their lifetime. Many cautious retirees abide by this time-tested guideline, which also is shared by endowments and other fiduciaries who must provide income over a long time span.

So, why do many retirees withdraw 7 percent or 8 percent or more each year? In the first phase of retirement, people tend to live it up; more free time naturally promotes new ventures and adventures and an inclination to live more lavishly and disregard their likely long life span.

Ignoring tax efficiency

It can be a good idea to have both taxable and tax-advantaged accounts in retirement. Taxable and tax-deferred accounts have different advantages as a better after-tax return is pursued for the whole portfolio. Taking retirement income off both the principal and interest of a portfolio may provide a way to reduce ordinary income and income taxes.

Finding a shortfall when living on portfolio income

In response to such an experience, retirees move money into stocks offering significant dividends or high-yield bonds – something that might not be the best strategy in the long run, particularly if the underlying credit quality of these investments is not strong. Chasing yield is seldom a good investment strategy.

Avoiding market risk

Equity investment does invite risk, but the reward may be worth it. In contrast, many fixed-rate investments offer comparatively small yields these days. Historically, stocks have significantly outperformed bonds over time and through many market upheavals.

Retiring with heavier debts

It is hard to preserve (or accumulate) wealth when portions of it are being handed to creditors.

Putting college costs before retirement costs

There is no “financial aid” program for retirement. There are no “retirement loans.” Your children have their whole financial lives ahead of them. Try to refrain from touching home equity or an IRA or other retirement savings to pay for their education expenses. There are many ways to obtain a good education, and careful consideration of its cost/reward proposition should be a family priority.

Retiring with no plan or investment strategy

An unplanned retirement may bring terrible financial surprises; the absence of a strategy can leave people prone to market timing and day trading. Or retirees may end up taking on minimum wage jobs as their only option to pay the bills.

These are some of the classic retirement planning mistakes. Why not plan to avoid them? Take a little time to review and refine your retirement strategy in the company of a financial professional you know and trust.

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