

EIGHT MOST COMMON MISTAKES MADE IN RETIREMENT

The potential pitfalls threatening a successful retirement are many, and the biggest errors fall into both psychological and financial categories, according to major financial advisors. Here are the eight most common mistakes made in retirement.

1. Lack of clarity

"The greatest concern we have with our clients is the psychological part," one financial advisor said. "They'll say: 'What do I do? Paint the fences? Then what?'" Advisors get many retired clients who are "lost" and not focused on their finances or their future, because after having been very successful throughout their career, they now feel they no longer have a sense of control. They can feel cast adrift, so it's very important to think it through before they retire so they'll know what to plan for. If you don't have a great deal of clarity for what you want by retirement, then when will you have it?

2. Refusal to accept change

Many people don't understand how to allocate resources over an unknown period of time. The biggest thing is learning to accept that there might be a change in lifestyle and to live peacefully with that. But when you talk about budgets, people shut down. As people feel they can no longer do what they want and regret perceived past carelessness, it can bring about a sense of denial and pain.

Retirees need to learn new thinking skills, including:

- Getting in touch with personal values (i.e., realizing "it's us against the marketing machine").
- Making tough financial choices (i.e., eliminating the expenses—designer clothes, latte coffees, takeout meals—that put them at financial risk).
- Being mindful of cash flow.

3. Having a DIY mentality

Another area of erroneous thinking is going it alone. Many baby boomers have a do-it-yourself mentality; they're used to going online to do their own research. They think this holds true for financial planning, as well. Without professional assistance, retirees typically will underestimate and overlook their financial needs. People can become too focused on returns instead of focusing on their personal financial goals.

4. Failing to establish a formal plan

Retirees also often fail to establish a formal written retirement-income plan. The plan should include both a detailed budget and forward-looking tax mitigation strategies. Sometimes retirees don't understand that formal plans give them (a) the ability to use a very disciplined approach—not react emotionally to the market—and (b) assurances that there's a way to address unexpected events.

5. Playing it too safe

Retirees saw CDs do well in the 1990s, and they expect them to do better in the future. But it may be that we might be in a low-interest environment for the next five to 10 years. Some financial advisors have suggested that investors should have a lump sum of 20 to 22 times the amount they need to generate annually.

6. Not really downsizing

Relocating doesn't always equal savings. A number of retired couples think they can move and downsize to save money. In actuality, many times they don't save much money in the move. For example, if clients sell a \$500,000 house, they might spend almost as much purchasing a smaller but nicer new home. Between closing costs [buying and selling], moving and buying new furniture, they may spend about \$100,000.

7. Not planning for parents

Although many baby boomers are financially supporting their elderly mothers and fathers, only a small percentage integrate their parents' financial needs into their own comprehensive financial plans.

8. Failing to maximize Social Security

Many people are of the mind-set they should start claiming Social Security benefits at the earliest time possible. It has been noted that for married couples, for example, there are more than 80 strategies for claiming Social Security, including "file and suspend" or "restricted applications." These strategies are not publicized, and the difference between the best decision and the worst possible decision of when to elect ... can be well over \$100,000," according to an article by the International Association of Registered Financial Consultants. They warn against head-in-the-sand thinking. People put blinders on and don't pay attention to areas that could potentially devastate their retirement.

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