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Retirement Planning Myths

Websites and publications geared towards those contemplating retirement ply their readers with articles on the "do's and dont's" of retirement planning. Even so, trying to formulate the right retirement strategy can be mind-boggling! Here are some common retirement planning myths:

1. "As I near retirement, investments should be more conservative." Americans are living longer. In fact, it's not unusual for retirement to last for 25 to 30 years. If you take into consideration the rising costs of goods and services, particularly in the area of healthcare which impacts older Americans, some growth in your investments is mandatory.

2. "I can claim Social Security early and still get full benefits later." Collecting at age 62 means locking in reduced benefits forever. When you collect early, your benefits will be 25 percent less than if you had waited until your full retirement age, and as much as 75 to 80 percent less than if you delay collecting until age 70. Claiming early may make sense if you have an illness that impacts your life expectancy.

Generally, to maximize your Social Security benefits, defer collecting them for as long as possible.

3. "Medicare will fully cover my medical expenses." Medicare is not intended to cover all of your healthcare costs once you retire. Research shows that only about half of healthcare expenses of older Americans are covered by the government program. Dental, vision care, and hearing aids have historically been paid for privately.

Most importantly, prescription costs are rising and only some of them are covered under Medicare's prescription drug coverage (Part D)
benefit.

4 "Once I retire, I'll sell my house, pay off the mortgage and buy a smaller house with cash to cut my expenses." Firstly, finding the smaller house is only the first issue. You have to consider the moving expenses and, possibly, repairs and renovations to make the new home comfortable for you. Many of our clients are surprised by the costs.

Secondly, holding a mortgage can help maximize resources, particularly in today's low interest- rate environment. Finally, bear in mind that many retirees lack the discipline to actually reduce their lifestyle costs. Thus, money saved by not having to make monthly mortgage payments may just be used to pay other expenses.

5. "The customer service represent- ative at the bank suggested this investment." The selection of a qualified financial professional is one of the most important decisions you can make at any time in your life. If the bank's representative is suggesting that you purchase an annuity or make another investment with your cash or the proceeds of your certificate of deposit as it matures, understand that the way you invest your money, particularly as you approach retirement, requires careful consideration of a multitude of factors including your health, lifestyle, retirement income, expenses, marital status, proximity of loved ones and anticipated longevity. This is not something that should be decided on the run. You should understand the investment that is being offered and how it fits into your overall investment strategy.

6. "I can rely on the rule of thumb that I should 'own my age in bonds' or 'retire when I have one million dollars.'" Don't believe everything your read. A rule of thumb is a generality. Taking overly general financial advice is one of the more common mistakes retirees make. Your needs will vary greatly from those of your neighbor. Rely on personalized projections from a qualified professional.