



Nine Common Mistakes A Woman Needs to Know About Before She Retires

So you are about ready to retire.....congratulations! It may be one of the most exciting times in your life. Retiring is also a huge decision, and you may find it overwhelming when you consider the long list of things you need to do before you reach that special day. Retirement isn't like riding a bike – it generally isn't one of those things in life where a person wants to “keep trying until you get it right”. Most people only want to retire once. With that in mind, here are nine common mistakes you should know about BEFORE you retire. Avoiding these common pitfalls may help you get it right the first time.

1. Depending on fixed returns for your retirement savings because that provides enough money today

If you're planning to retire, you no doubt have on your mind how you are going to have enough money to live comfortably. You may have heard rules of thumb, such as – multiply your retirement savings by 5% and if the result is enough money to live on, you'll be fine. The assumption this rule of thumb makes is that you'll put your money somewhere conservative, like a CD or bonds, and live on the interest from that investment to provide your income. Initially, this may sound like a good idea, but let's play out that scenario a little bit further into the future. Say your retirement savings totals \$500,000 dollars. You multiply by 5% and find that the answer is \$25,000 annually in earnings. You think, if that was a CD and it made me \$25,000 per year, I could live on that. Today, maybe you can, but what about in 15 years? You see, we have to be concerned about inflation along the way. Inflation is this sneaky thing that creeps up on us, often without us noticing. It may grab your attention every now and then – increasing costs of gasoline, or prescriptions, for example. But what can inflation do to a retirement portfolio? The answer is, long term, it can make a comfortable lifestyle very difficult to afford because the costs of goods and services has increased while your income has not. As an example, that same \$500,000 retirement savings today that provides \$25,000 annually has the buying power in 15 years (at 3% inflation) of only \$16,046. Ask yourself if you can comfortably live on \$9,000 less than you might have planned. If the answer is no, you may have some more planning to do.

2. Not knowing how long the money should realistically last

In response to the discussion about inflation and earnings above, you may be thinking that living on fixed returns would still be okay, because over time you can dip into the principal of your savings to make up for the shortfall caused by inflation. This is true, but it's important to realize that, by taking out principal, over time there's less money to generate the income itself. Imagine a snowball rolling downhill. As it grows larger, it rolls faster and faster. Similarly, as you eat into the principal of your savings, your income needs eat up that principal faster and faster. Let's go back to our \$500,000 retirement savings example from above. A \$500,000 dollar retirement savings account getting a fixed rate of return of 5% and handling 3% inflation will only last 25 years. While 25 years may sound like quite a while, that account is completely depleted at the end of the 25th year. What happens if you have run out of money before running out of life? The number of years in retirement has been increasing over recent decades as individuals retire earlier and live longer. To evaluate this for your own situation, ask yourself what age you are today. The average retiree is between the ages of 55 and 65.¹ If your retirement savings lasts for 25 years and you are presently between the ages of 55 and 65, you will be somewhere between the ages of

80 and 90 when the money runs out. Is this long enough? Statistically the average 55-year old woman today can expect to live to age 83. A woman age 65 today can expect to live to age 85.² You may also want to look to your own family longevity on this matter. Do people in your family generally live to an advanced age? If so, you may need to ensure your money will last you all the way through your retirement.

¹ Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2006 Retirement Confidence Survey.

² National Vital Statistics Report, Volume 54, Number 14, April 19, 2006. U.S. Department of Health and Human Services, Center for Disease Control and Prevention (CDC). Year 2003 data.

3. Putting all the money in illiquid investments

Issues of inflation and longevity, compounded with the confusion that often accompanies investing, are what has caused some investment options with income guarantees to become so popular. Investment options exist which will offer the opportunity for growth, some guarantees pertaining to the amount of income you receive, or ability to get a stream of income you cannot outlive. These features may sound very appealing, but as with anything in life, there's always a catch. Some of these investment options can be very good. Others may have high fees, be illiquid, or both. Before placing all your money in something that may be inflexible, think back over the last ten years of your life. Has anything significant happened financially? Any emergencies or unforeseen events? If so, think carefully before putting all your eggs in one basket. Often it can be wise to make sure there are at least some funds you can access in the event of unforeseen circumstances.

4. Putting together a realistic budget

Do you know how much money your needs and lifestyle consume on a monthly basis? Do you know what things will change in retirement? While most people don't enjoy figuring out a budget and living within one, a budget can be the bedrock financial tool that makes all the other strategies and solutions work. Figuring out how much money you need is the first key to answering the question of how long your money will last. The more you need, the harder your retirement savings is going to have to work for you. Often, budgets change significantly in retirement. You may be planning to pay off your home or your vehicle. Dry-cleaning costs may be virtually eliminated since you'll be finished routinely wearing your professional attire. Perhaps gasoline costs will go down significantly because you won't have the daily commute. Then again, maybe gas expenses will go up if you plan to hit the road and travel a lot. Using a budget worksheet and imagining how you will live life in retirement, and consequently how much you will spend in each budget area, can be very important to developing a livable budget.

5. Forgetting to factor health insurance and long term care considerations

Developing a budget is one thing, but plugging in numbers for expenses you may have never had to pay before can be quite an obstacle. Health insurance and long term care planning are critical issues, and ones best resolved *before* your retirement is final. Why? If you've had employer health care coverage, a continuation of that coverage may be available to you under the federal laws of COBRA – but only for 18 months, and at a cost of up to 102% of what the employer pays for that benefit. You may presently pay a portion of those monthly premiums, but how much is your employer paying on your behalf? Often the answer is surprising because the amount can be very high. If so, you will need to work this number into your budget. If you are in good health, you may want to shop for your own individual health insurance policy. It's similar to shopping for car insurance – there are many carriers, many levels of coverage, and many different costs. You must bear in mind your health circumstances, however, as a private insurance company is not required to offer you coverage. These circumstances force some individuals back to the

COBRA care through the employer because it's their only alternative. And remember, it only lasts 18 months. Medicare eligibility does not begin until age 65, so if you do not have coverage to last until that time, you need to develop a plan.

The reason that health insurance and long term care planning can be so important is because not having it, and experiencing a major medical event, can devastate your retirement savings. Imagine not having any insurance on your home, and then your home burns down. You've lost everything – all your possessions, all your clothing, and the place where you live. How would you recover? Health issues and long term care – the need for care in a nursing home or at home by a professional – can do the same thing to your retirement funds. If you have no insurance to cover those expenses, and you have to pay large lump sums with your life savings, what funds will be left to pay for the rest of your life? The question may not be where will you live, but it certainly is HOW will you live.

6. Overlooking property taxes, home insurance, gifts, and occasionally needing a new car

While we're on the subject of budgets, there are a few other common items people tend to forget to include. Making and using a budget, by the way, is sort of like being on a diet. People tend to kid themselves. You don't do yourself any favors by low-balling your numbers and then "cheating" with little expenditures you forgot. Unless you've grown a money tree in your backyard, those funds have to come from somewhere. Failing to account for them makes your whole budget fall apart. The result, like being on a diet that didn't work, is frustration and inability to accomplish the goal. With that in mind, it's important to remember things that may only get paid once per year. Common examples are your property taxes and home insurance. Especially once the mortgage is paid off, it may be easy to think, "Hooray, that whole payment has gone away!" Not so fast. Most of the time, the mortgage company placed funds in escrow to pay your property taxes and home insurance. If they're not doing it for you, you must find a way to do it for yourself. Most people find it easiest to set aside a monthly amount in savings, and then the funds are there once the bill comes due. Since both property taxes and home insurance typically present multi-thousand dollar bills, it's important to plan ahead.

Gift-giving is another subject often overlooked or underestimated. Here too, it's important to sit down in advance and write out all the gifts you plan to give that year – birthdays, Christmas or Hanukkah, graduations, weddings, visiting the grandkids and taking them something special. Avoid falling back on the excuse of, "I can't possibly know all the gifts I'll need to give next year." You are probably right. However, you can probably account for ninety percent of the gifts. Calculate those expenses and add a little extra for the unexpected gifts. The reason this can be important is because annual gift-giving for many women adds up to several thousand dollars per year, and most women I've met don't want to be known as the stingy grandma. Planning where these dollars fit into the overall picture can play an important role in truly being able to enjoy giving the gifts you plan to give.

And cars – perhaps best described as the necessary evil of our world today. Many women look forward to being debt-free in retirement, and pay off both their home and car as they retire. This can be great, but how long will that car last you? Ask yourself how long you've kept cars in the past, and this will probably be a good indicator as to how long you'll want to keep the car you pay off. For some women it's only a few years, for others it may be ten years or a little more. Either way, eventually cars wear out and have to be replaced. When this happens, you have to either have the funds to afford another car payment, or the funds to pay cash and buy one outright. Especially since this expense only occurs every few years, it is one often forgotten and not planned for. However, since most retirees do live on a set income, it can be very important to factor in, at least ensuring there's some "wiggle room", or some dollars being set aside in savings, in order to pay for that new car need when it arrives.

7. Not having an emergency savings fund and cash fund

Our car issue brings us right into our next common mistake – not having a savings or “slush” fund. I like to refer back to the old saying of “Murphy’s Law”, by saying – Murphy is always where you least expect him. Think back again on your life, and ask yourself how many times unexpected financial expenses have crept up. Younger women often say to me, “It seems like I can never get ahead. Every time I set money aside, something comes up I have to spend it on.” If you ever felt like that in the past, why expect things to be different in the future? There are two ways to tackle the savings dilemma – either set aside a chunk of your retirement savings as a cash fund available for emergencies and lump-sum cash needs, or set aside a monthly amount in your budget to build up a fund. Either way, the other important requirement here is – don’t spend it unless it’s truly an emergency or a lump-sum need! If that fund becomes the source of cash for forgotten gifts, health insurance, or other budget shortfalls, that money will never be there for the real emergencies or sums of cash you need.

8. Assuming that doing a financial review ONCE is enough

At times, women will say to me – “I’ve planned for my retirement; I’ve finished the to-do list I developed – I’m DONE!” It’s sort of like saying you made your list of house chores, completed them, and they’ll never have to be done again. We might wish we never had to revisit those chores, but unfortunately, the house gets dirty again over time! Your financial life can be very similar. It is important to periodically evaluate the budget, your portfolio, retirement savings, goals, and life situation. Perhaps the budget is significantly more, or less, than you planned. Maybe your portfolio of retirement savings has gotten more, or less, return than you hoped. The travels goals you had have been completed, or have changed due to health or other life circumstances. A hundred things can change, and consequently it’s important to sit down and review your entire financial situation periodically to make sure your life and your finances are still in line with one another.

9. Following the investment advice of an uninformed friend because someone told her that’s what she should do

Most of the time, when women find their financial or life experience to be different than they had planned, they talk – to other women! While sharing, caring, and helping through conversation is a fundamental dynamic of who we are as women, it can be very important to realize that your situation is yours, and probably has some fundamental differences from your friends, regardless of how many similarities you might find. I will hear women say, “I talk to my friend and her accountant/advisor/attorney suggested she do _____, and my situation is similar so I think I’ll do the same thing.” In medicine, there is a reason that you have to have a prescription in order to get certain medications, and a reason that only a physician can give you that prescription. The reason is because the doctor is the one trained to ask about all the circumstances – some similar to your friend and some not – and determine the best treatment for you. There may be an important side effect to the medication, or interaction with another drug, that doesn’t pertain to your friend but does pertain to you. If you were able to get that drug on your friend’s advice, you could be seriously hurt. Neither you nor your friend meant for those adverse consequences to result from the sharing of information between you, but it could happen, and often does when friends share financial advice and assume what’s right for one is right for the other. Financial advice is similar to medical advice – it’s personal, it’s often complex, and it may very well be critical to your long term health and happiness. Take the time to get advice of your own to make sure you live the retirement of your dreams.

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