

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.

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.

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.

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***.

To read about other common mistakes women need to know about before retiring, visit www.LadyWealth.com to request the free report.

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.

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