



TOP 10 MOST COMMON **RETIREMENT MISTAKES** AND HOW TO AVOID THEM



Mistake #1: Failing to Have a Proper Retirement Plan

“Failing to plan is planning to fail.”

I’m sure you’ve heard that saying many times before. Most people, when they hear it, nod their heads and think, “Good advice.” But when it comes to their money, are they taking it? Do they have a plan for their finances, or are they, in fact, planning to fail?

There’s a simple way to find out. Go around to different people you know. Mention the quote above. Ask them, “Do you agree with it?” Count how many people nod their heads. Then ask, “Do you have a plan for your finances?” Then stand back and watch how many nods turn to blank stares. Now it’s your turn: Do *you* have a plan for your finances?

When it comes to your money—and your retirement especially—failing to plan really *is* planning to fail. Ask yourself these questions:

- Do you know where your income will come from after you retire? Do you know if it will be enough to meet expenses? Furthermore, do you have any idea how much you’ll need?
- Have you decided what you want to do with your golden years? Have you figured out how you’ll pay for it?
- Are your investments suitably liquid so you can meet any unexpected expenses? Do you have a plan for minimizing taxes, both for yourself and your heirs?
- Have you planned for what could happen if your health goes bad, or your spouse passes away? Are your retirement accounts protected from inflation?

If the answer to any of these is “No,” don’t feel bad. There’s only one way you could know; by planning. But how *do* you plan for retirement? Where do you even begin?

Well, you have two basic options. Option #1: fire up Google® and get searching. Of course, you’ll have no way of knowing if the information you get is accurate, or if it’s appropriate for *you*. And it could take weeks of fruitless searching to find the answer to a question. Many of the articles out there are just stubs—they give you a few basic points but almost no detail at all. Most are shorter than this guide.

Option #2 is much more promising: actually, *create* a financial plan. A proper plan, when made with the help of a financial advisor, will help you:

- Know how much money you’ll need to meet your expenses *and* reach your goals.
- Know where that money can and should come from. Having a plan can show you how much income you need, how much you should save, and what expenses might need to be cut.
- Choose the right investments to provide the income you need, at a suitable, specific level of risk.
- Potentially minimize taxes for both yourself and your heirs.
- See what areas of your finances are stable and which may need improvement.

Having a financial plan provides confidence. It answers questions. But most of all, it's the instruction manual to assembling your own retirement. Planning, knowing exactly what steps to take and when to take them, is the ultimate tool to success.

Mistake #2: Having Improper Asset Allocation

Improper asset allocation is one of the most common mistakes that a pre-retiree can make. Why is asset allocation so important? Look at it this way: if you were to only eat one food every day for your entire life, your body would be very unhealthy. If you were to exercise only one group of muscles for your entire life, your body as a whole would be very weak. And when you invest all your money in the same way, the same could be true of your finances.

Asset allocation is basically a strategy that spreads your investments across different "asset classes." The three main classes are equities (stocks), fixed income (bonds), and cash. There are other classes, of course, like commodities and real estate. And there are sub-classes as well. For example, "stocks" can be divided up into many different classes, like international stocks, small, mid, and large-cap stocks, etc.

The thinking behind asset allocation is that by mixing your investments within these different classes, you reduce your risk. That's because if one class goes down in value, the other classes you've invested in can compensate.

Here's an example of why asset allocation is so important. Let's say that in Year 1, the stock market goes through the roof. So, you put all your money into stocks. But in Year 2, the stock market performs poorly. It's possible you could end up losing a lot of money.

Now let's say that instead of putting all of your money into stocks, you put 50% into the bond market. When the stock market went down, investors started pouring their money into bonds, causing bond prices to go up. That means that even though your stock holdings decreased in value, your bond holdings *increased*, meaning you could still break even or possibly come out ahead.

Of course, this is a very general, very simplified example. I'm certainly not recommending you do anything like that. But hopefully it illustrates the point: putting all your eggs in one basket is rarely a good idea.

Here's another reason to believe in the value of asset allocation. Look at this chart:

Asset Allocation Diversification – 20 Years of the Best and Worst



Everyone wants to be in the best-performing asset class every year. The thing is, few people are savvy enough to consistently choose the best. That's why diversification is key. This chart shows annual returns for eight broad-based asset classes, cash and a diversified portfolio ranked from best to worst. Notice how the "leadership" changes from year to year, and how competitively the diversified portfolio performed over 20 years (see the "annualized return" column).

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	ANNUALIZED RETURN
BEST	Small/ Mid Cap 45.51%	REITs 30.41%	Commodities 21.36%	REITs 34.35%	Commodities 16.23%	Bonds 5.24%	Large Cap Growth 37.21%	REITs 27.58%	Bonds 7.84%	REITs 20.14%	Small/ Mid Cap 36.80%	REITs 27.15%	Large Cap Growth 5.67%	Small/ Mid Cap 17.59%	Large Cap Growth 30.21%	Cash 1.86%	Large Cap Growth 36.39%	Large Cap Growth 38.49%	REITs 39.88%	Commodities 16.09%	Large Cap Growth 10.76%
	International 38.59%	International 20.25%	International 13.54%	International 26.34%	Large Cap Growth 11.81%	Global Bonds 4.79%	Small/ Mid Cap 34.39%	Small/ Mid Cap 26.71%	REITs 7.28%	Small/ Mid Cap 17.88%	Large Cap Growth 33.48%	Large Cap Value 13.45%	REITs 2.29%	Large Cap Value 17.34%	International 25.03%	Bonds 0.01%	REITs 28.07%	Small/ Mid Cap 19.99%	Large Cap Growth 27.60%	Cash 1.50%	Small/ Mid Cap 10.26%
	REITs 38.47%	Small/ Mid Cap 18.29%	REITs 8.29%	Large Cap Value 22.25%	International 11.17%	Cash 1.80%	International 31.78%	Commodities 16.83%	Global Bonds 5.64%	Large Cap Value 17.51%	Large Cap Value 32.53%	Large Cap Growth 13.05%	Bonds 0.55%	Commodities 11.77%	Small/ Mid Cap 16.81%	Global Bonds -1.20%	Small/ Mid Cap 27.77%	Diversified Portfolio 10.58%	Commodities 27.11%	Large Cap Value -7.54%	REITs 8.90%
	Large Cap Value 30.03%	Large Cap Value 16.49%	Small/ Mid Cap 8.11%	Small/ Mid Cap 16.17%	Global Bonds 9.48%	Diversified Portfolio -27.54%	REITs 27.45%	Large Cap Growth 16.71%	Large Cap Growth 2.64%	International 17.32%	International 22.78%	Small/ Mid Cap 7.07%	Cash 0.03%	REITs 9.28%	Large Cap Value 13.66%	Large Cap Growth -1.51%	Large Cap Value 26.54%	Global Bonds 9.20%	Large Cap Value 25.16%	Bonds -13.01%	Large Cap Value 8.83%
	Large Cap Growth 29.75%	Diversified Portfolio 14.48%	Diversified Portfolio 7.92%	Diversified Portfolio 15.02%	Bonds 6.97%	Commodities -35.65%	Diversified Portfolio 23.72%	Diversified Portfolio 15.73%	Large Cap Value 0.39%	Large Cap Growth 15.26%	Diversified Portfolio 13.41%	Bonds 5.97%	International -0.81%	Diversified Portfolio 8.72%	Diversified Portfolio 13.21%	REITs -4.10%	International 22.01%	International 7.82%	Small/ Mid Cap 18.18%	Diversified Portfolio -13.61%	Diversified Portfolio 7.15%
	Diversified Portfolio 27.75%	Global Bonds 9.27%	Large Cap Value 7.05%	Large Cap Growth 9.07%	Cash 4.74%	Small/ Mid Cap -36.79%	Large Cap Value 19.69%	Large Cap Value 15.51%	Cash 0.08%	Diversified Portfolio 12.02%	REITs 3.21%	Diversified Portfolio 5.32%	Small/ Mid Cap -2.90%	Large Cap Growth 7.08%	REITs 9.27%	Diversified Portfolio -5.98%	Diversified Portfolio 20.33%	Bonds 7.51%	Diversified Portfolio 17.45%	International -14.45%	International 6.43%
	Commodities 23.93%	Commodities 9.15%	Large Cap Growth 5.26%	Global Bonds 6.64%	Diversified Portfolio 4.69%	Large Cap Value -36.85%	Commodities 18.91%	International 7.75%	Diversified Portfolio -0.16%	Global Bonds 4.32%	Cash 0.05%	Global Bonds 0.59%	Global Bonds -3.15%	Bonds 2.65%	Global Bonds 7.39%	Large Cap Value -8.27%	Bonds 8.72%	Large Cap Value 2.80%	International 11.26%	Global Bonds -16.25%	Bonds 3.10%
	Global Bonds 12.51%	Large Cap Growth 6.30%	Cash 3.00%	Cash 4.76%	Small/ Mid Cap 1.38%	REITs -37.34%	Global Bonds 6.93%	Bonds 6.54%	Small/ Mid Cap -2.51%	Bonds 4.21%	Bonds -2.02%	Cash 0.03%	Diversified Portfolio -3.33%	Global Bonds 2.09%	Bonds 3.54%	Small/ Mid Cap -10.00%	Commodities 7.69%	Cash 0.58%	Cash 0.05%	Small/ Mid Cap -18.37%	Global Bonds 2.72%
	Bonds 4.10%	Bonds 4.34%	Bonds 2.43%	Bonds 4.33%	Large Cap Value -0.17%	Large Cap Growth -38.44%	Bonds 5.93%	Global Bonds 5.54%	International -12.14%	Cash 0.07%	Global Bonds -2.60%	International -4.90%	Large Cap Value -3.83%	International 1.00%	Commodities 1.70%	Commodities -11.25%	Global Bonds 6.84%	Commodities -3.12%	Bonds -1.54%	REITs -25.10%	Commodities 1.37%
	Cash 1.07%	Cash 1.24%	Global Bonds -4.49%	Commodities 2.07%	REITs -17.83%	International -43.38%	Cash 0.16%	Cash 0.13%	Commodities -13.32%	Commodities -1.06%	Commodities -9.52%	Commodities -17.01%	Commodities -24.66%	Cash 0.27%	Cash 0.84%	International -13.79%	Cash 2.25%	REITs -5.86%	Global Bonds -4.71%	Large Cap Growth -29.14%	Cash 1.22%
MARKET SEGMENT		REPRESENTED BY						STANDARD DEVIATION		MARKET SEGMENT		REPRESENTED BY						STANDARD DEVIATION			
Cash		FTSE 3-month T-bill Index ¹						0.43		Large Cap Growth stocks		Russell 1000 [®] Growth Index ⁴						15.69			
Bonds		Bloomberg US Aggregate Bond Index ²						3.88		Commodities		Bloomberg Commodity Index ⁶						16.43			
Global bonds		Bloomberg Global Aggregate Index (Unhedged) ³						5.88		International stocks		MSCI EAFE Index ⁷						16.70			
Diversified portfolio		Equal allocations of all segments disclosed herein, excluding cash						11.52		Small/ Mid Cap stocks		Russell 2500 [™] Index ⁸						18.51			
Large Cap Value stocks		Russell 1000 [®] Value Index ⁵						15.34		REITs		FTSE NAREIT All REITs Total Return Index ⁹						20.84			

Source: FactSet SPAR. Returns are in USD, and net for MSCI EAFE and gross for all other asset classes. Annualized return and standard deviation (annualized) is for the 20-year period ending December 31, 2022. The diversified portfolio is rebalanced quarterly to maintain the equal allocations throughout the period. Standard deviation reflects a portfolio's total return volatility, which is based on a minimum of 36 monthly returns. The larger the portfolio's standard deviation, the greater the portfolio's volatility. Asset allocation and diversification do not guarantee a profit or protect against a loss.

IMPORTANT RISK CONSIDERATIONS

International: Investing in foreign and/or emerging market securities involves interest rate, currency exchange rate, economic, and political risks. These risks are magnified in emerging or developing markets as compared with domestic markets. **Small/Mid Cap stocks:** Investing in small and/or mid-sized companies involves more risk than that customarily associated with investing in more-established companies. **Bonds:** Bonds, if held to maturity, provide a fixed rate of return and a fixed principal value. Bond funds will fluctuate and, when redeemed, may be worth more or less than their original cost. **Commodity:** Commodity-related investments can be more volatile than investments in equity securities or debt instruments and can be affected by changes in overall market movements, commodity index volatility, changes in interest rates, currency fluctuations, or factors affecting a particular industry or commodity, and demand/supply imbalances in the market for the commodity. Events that affect the financial services sector may have a significant adverse effect on the portfolio. **Real Estate:** Real estate-related investments can be volatile because of general, regional, and local economic conditions, fluctuations in interest rates and property tax rates; shifts in zoning laws, environmental regulation and other governmental actions; increased operation expenses; lack of availability of mortgage funds; losses due to natural disasters; changes in property values and rental rates; overbuilding; losses due to casualty or condemnation, cash flows; the management skill and creditworthiness of the REIT manager, and other factors.

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See next page for important information.

At first glance, this chart might seem incomprehensible, but it's extremely revealing. Stay with me for just a minute, because this will show you why it's *crucial* to have proper asset allocation.

This chart shows the highest and lowest returns for 10 different asset classes for the past twenty years. Look at the year 2008 column. In that year, the second-worst performing asset class was large-cap growth stocks. This means that very large companies with the potential for growth were poor investments. This asset class went down by nearly 40% that year. But the following year? The exact opposite. The same class that performed so poorly in 2008 was the best performing asset class in 2009, up 37.21%. Follow Large cap growth through 2022 and you can see it is all over the place! Now look at the diversified portfolio – it has fluctuations from year to year, but over this 20-year period, it has never been at the very top or at the very bottom.

This is why it's so important to have a *diversified* portfolio spread out among numerous asset classes. No one knows what will happen year to year. If you try to time the market, you can end up jumping in at exactly the wrong moment or bailing out just as things get good again. But by allocating your assets in different areas, you can stabilize your portfolio's performance. It means you don't have to ride a constant roller coaster. It means not subjecting your finances to an unhealthy diet.

Now, here's the most important point. Even if their portfolio is technically diversified, many investors don't know whether the style of diversification is right for them. Their assets may be allocated in different areas, but are they the *correct* areas? You see, there's no magic formula to follow. Proper asset allocation depends on a variety of factors, like your age, goals, ability to take on risk, family situation, and so on. So, the question you must ask yourself is—are your assets properly allocated?

Mistake #3: Failing to Calculate the Tax Consequences of Retirement

Another common mistake is to underestimate the effect of taxes on retirement. Many pre-retirees only think about how much they'll have to save or invest ... not how much they'll owe Uncle Sam.

It's true that for many people, their tax rates may be lower in their retirement years. But there are many retirement decisions to make that can affect your tax situation. Below is a list of some of tax-related issues to think about as you prepare for retirement.

- **Change in Tax Bracket** - As stated above, many people will have a change in their tax bracket upon retirement. That's because their income is lower than when they were working. The benefit of this change, of course, is that you could owe less tax on your income. However, one possible downside is that you may not be able to claim as many deductions.
- **Some Retirement Savings Qualify as Income** - When setting aside money for retirement, many people invest in tax-deferred accounts like an IRA or 401(k). These types of accounts allow you to invest your money for retirement without having to pay taxes on it immediately. But this money becomes taxable income the moment you start

withdrawing it. When calculating how much money you'll have for retirement, don't make the mistake of forgetting to factor in the government's cut.

- **Taxes on Social Security Benefits** - Your Social Security benefits may also count as taxable income. This is a complicated topic, but if you have retirement income *in addition* to your Social Security benefits, your benefits *may* be taxable if your combined income is more than a certain amount. Consult with a good Certified Public Accountant to find out more.
- **Capital Gains and Dividend Taxes** - A capital gain is an increase in the value of a capital asset, like a stock, that gives it a higher worth than the price for which it was purchased. In other words, if you sell an investment that has risen in value, you have a capital gain. Capital gains are subject to capital gains taxes. The amount is dependent on what kind of asset you sold and how long you held it before selling. The returns you make on your investments can be significantly impacted by capital gains taxes.

The long and short of all this is that many pre-retirees plan for retirement by calculating how much money they've saved versus how much they expect to spend. But what they *don't* do is consider the tax implications of retirement. Failing to do so can completely alter the equation. You may find out you have less money to retire on than you thought.

Mistake #4: Failing to Plan for Health Care Expenses

What is retirement? Is it a chance for you to travel the world, play with the grandkids, take up that hobby you've been putting off, or just relax and read a book? Yes, retirement can be all these things and more. Unfortunately, your retirement years are also when your body starts to slow (and break) down.

You may not notice it immediately. Say you retire at 65, full of energy and with no health problems. But in five years? Ten years? Fifteen? By that time, you'll be eighty. They say age is a state of mind, but it's also a fact of life, and this fact means inevitable changes to both your health and your pocket book.

There's no use being anything less than blunt about it. Your medical expenses *will* go up after retirement and the further into retirement you are, the higher your expenses may be. But many pre-retirees fail to plan for these costs. It's a major mistake that too many pre-retirees make.

Those that do plan, often underestimate exactly how much their medical expenses will cost. For example, a 2022 study by Fidelity Investments revealed that a 65-year-old couple retiring this year can expect to spend an average of \$315,000 in health care and medical expenses throughout retirement². The 2022 estimate for single retirees is \$150,000 for men and \$165,000 for women. Fidelity's estimate assumes both members of the couple are enrolled in traditional Medicare, which between Medicare Part A and Part B covers expenses such as hospital stays, doctor visits and services, physical therapy, lab tests and more, and in Medicare Part D, which covers prescription drugs. According to the Employee Benefits Research Institute,

Retirees were more likely to report that their spending is much higher or a little higher they can afford in 2022 (17 percent in 2020 vs 27 percent in 2022).³

That's a lot of money. There are just so many aspects of health care that will have to be covered. Besides medicine, there are regular visits to your doctor, hospital stays, surgeries, long-term care, and more.

Hopefully this gives you a little glimpse of how important it is to plan for your medical expenses. But how do you pay for them? The obvious answer is "work longer and retire later," but let's delve a little deeper. Here are a few things you can do:

- Learn your various Medicare options - If you are one of the lucky few who will have employer-provided health care coverage even after retirement, congratulations. But if not, start familiarizing yourself with the intricacies of Medicare now. The Federal government's health insurance program for seniors is often referred to as a single plan, but in reality, it's many types of plans rolled into one. From the basic level of coverage (Part A) to "Medicare Medical Insurance" (Part B) which covers outpatient hospital care, physical therapy, and home health care, to the more elaborate "Medicare Advantage" plans, most retirees are confronted with too many options, some of which are more appropriate than others. Choosing the best type of coverage for you will be crucial when it comes to paying for your medical expenses.
- Look at Medigap - Medigap supplemental insurance is sold by private insurance companies and is designed to help pay those costs not covered by Medicare. Medigap isn't free, and certain criteria must be met before you can purchase it, but it's a route to consider.
- Invest properly - Your investment portfolio can be an invaluable tool if used wisely. One way to use it wisely is to invest a portion of your money with growth in mind. It's often thought that growth-oriented portfolios are for younger people, while retirees should trend toward more conservative investments. And while there is some truth to that, it's important to keep your retirement savings ahead of inflation. Being overly conservative prevents you from being able to do that.
- Consider long-term care insurance - Important disclaimer: not everyone will need long-term care or assisted living in their lives. That said, many people do, and long-term care (LTC) insurance is one of the best ways to pay for it. It can be beneficial to purchase LTC insurance sooner rather than later, as premiums can get higher as you grow older. However, LTC is expensive in and of itself, so give the subject a lot of careful consideration before making a decision.
- Keep your body healthy - I'm a financial advisor, not a doctor or trainer, so I'm not in the business of providing tips on healthy living. But this one is just common sense, and it's amazing how often it's overlooked. Keeping yourself healthy now can save you a *lot* of

money in the future. By getting regular exercise, eating a healthy diet, sleeping enough, and quitting smoking (among other things) you can give yourself a better chance of avoiding many of the problems that plague retirees. Conditions like high blood pressure, diabetes, and cancer can extract a high toll on your savings as well as your health. So, the single best way to ensure a long, happy, and financially secure retirement is to get your body in as good of condition as possible before you bid *bon voyage* to employment.

As you can see, paying for health care expenses is a huge part of retirement. As you create your retirement plan, make sure you give the subject all the attention it deserves.

Mistake #5: Misusing Tax-Deferred Investments

Tax-deferred investments, to put it simply, are investments that allow your money to accumulate tax-free *until* you decide to withdraw it, usually after retirement. Withdrawals are then taxed as ordinary income. These types of investments—think traditional IRAs, 401(k)s, and annuities—are a great way to save for retirement, but too many people fall prey to the temptation to plunder them long before they retire. It's a common mistake, but one that can have major implications on your retirement savings.

First, let's look at why tax-deferred investments can be a good way to save for retirement. By setting money aside, letting it grow, and deferring taxes, you can potentially have more retirement income after you stop working. This is especially true when you consider that many retirees will enter into a *lower* tax-bracket than the one they're in prior to retirement. That means you may be able to have *more* money for retirement while simultaneously paying *less* in taxes than you would have if you spent the money immediately after earning it.

Taking withdrawals too early, however, robs your retirement of those extra savings. It can also lead to various penalties. For example, if you make withdrawals from an IRA prior to age 59½, your withdrawals would be subject to a 10% penalty from the IRS in *addition* to being taxed. There are exceptions. For example, you can withdraw money to pay for certain medical expenses or buy a first home. But most of the time, raiding your retirement cookie jar just isn't a wise decision.

The point of all this isn't to recommend you start contributing to a tax-deferred investment today. The point is that if you *do* currently have tax-deferred investments, resist the urge to tap into them until you're at or very close to retirement. Give your money the chance to grow until you *really* need it.

Mistake #6: Failing to Maximize Your Social Security Benefits

Why is this a mistake? After all, you may have heard that Social Security is broken, or that it won't be around by the time you retire. But the truth is that Social Security is nothing less than a guaranteed stream of income, something *no* retiree should ever neglect. Even better? There are ways to maximize your Social Security benefits. In other words, you may have the ability to increase your post-retirement income. For these reasons, Social Security should, and will, play

a large part in your retirement plan. Failing to give your Social Security benefits the attention they deserve is basically just a way of denying yourself money for retirement. To help you avoid this mistake, here are *Three Ways to Potentially Increase Your Social Security Benefits*

1. *Delay collecting your benefits* - Too many people rush to collect their Social Security benefits as soon as they retire. This is sometimes a mistake, especially if you retire early. Technically, you can begin receiving benefits as early as age 62, but if you do so, your benefits will be reduced significantly. For example, if you were born between 1943 and 1954, your payouts would be reduced by 25%. And the reduction isn't temporary, it's permanent. Waiting until your "full retirement age" may be a better option—it means you won't face any reduction. What is your "full retirement age?" It's the age at which a person may first become entitled to "full" or "unreduced" retirement benefits.⁴ This chart gives you the specifics:

Year of Birth	Full Retirement Age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

The latest you can begin collecting benefits is at age 70, and there's good reason to hold off until then if you can afford it. Benefit payments go up 8% for *every year* you wait after you reach your full retirement age up to age 70. In other words, the longer you can keep your hand out of the cookie jar, the more sweets you'll eventually receive.

2. *Claim spousal benefits* - This topic is very intricate—too intricate for a single guide. So, for now, it's more important that you simply be aware of your options. Another way to potentially maximize your Social Security is to claim a spousal benefit. Married individuals can claim Social Security based on either their personal earnings record (in other words, their own work history) *or* on their spouse's earnings record. If a married individual chooses the latter, they would receive up to 50% of their spouse's benefit.

Why would you choose to claim Social Security based on 50% of your spouse's earnings record rather than your own? It's simple: because you can claim whichever number is higher. Be aware, however, that you cannot claim a spousal benefit until your spouse has filed their own claim.

3. *Claim survivor benefits* - Imagine a hypothetical couple, John and Mary. Let's say that both claimed Social Security based on their own earnings records. Now let's say that John dies of a heart attack, leaving Mary behind. Under certain circumstances, Mary

can file to receive John's benefit, *or* increase her own benefit to the same amount that John enjoyed, if John's number is greater.

There are other ways to potentially maximize your Social Security benefits, too. Whatever you do, remember: Social Security is a guaranteed stream of income, and should figure highly into your retirement plan. Don't deny yourself the chance to earn more money for retirement!

Mistake #7: Failing to Maintain Liquidity

When it comes to planning for retirement, few people think about the importance of *liquidity*. What is liquidity? The definition of liquidity is "the ability to convert an asset to cash quickly." Technically speaking, cash is the most liquid asset there is, because it can be used immediately and under almost any circumstance. Other assets have varying degrees of liquidity. Stocks are relatively liquid, since they can usually be sold easily. More tangible objects, like a car or even a prized baseball card, are far less liquid, because it might take longer to find an interested buyer. Items like these might also be harder to sell for their full value. Real estate is one of the least liquid assets of all—ever try selling a house before?

So why is liquidity so important when it comes to retirement? Think of it like this. The basic steps of retirement planning involve the following: first, take stock of your resources. Where will your income come from after retirement, and how much will it be? Then, calculate your expected expenses. If the total of your expected expenses is greater than your expected income, then the solution is simple: try to secure more income. One of the best ways to do that is through investments.

But here's where some people make a mistake. In the effort to get more income, it can be easy to lock your money up. For example, say you purchase a long-term Certificate of Deposit or an annuity. These could potentially provide you with the income you need, however the payments you receive would be based off a pre-determined schedule. If you wanted access to your money *before* the schedule allows, you would face a very stiff penalty. Because converting these assets to cash can be difficult and costly, they lack liquidity.

Why does this matter? The main reason is because of the *unexpected* expenses you will inevitably face after retirement. What if your house is damaged by a storm and needs repairs? What if your car gets stolen? What if you have sudden medical expenses to pay? All those things require cash. You can't rely on things like Social Security alone, because that will have already been earmarked for your *expected* expenses.

Unexpected expenses are why liquidity is so important. No one can plan for every occurrence. We must expect the unexpected. It's why you should always keep a first-aid kit in your car or a flashlight in your house. And it's why you should always factor in the importance of liquidity when preparing for retirement ... even if you must sacrifice a little bit of income to do it.

Mistake #8: Failing to Plan for Inflation

One word every pre-retiree should know is ... *INFLATION*

It's a scary term that conjures up images of German children stacking useless money, or national governments going broke. But inflation isn't just a word for economic textbooks. It's something every retiree and pre-retiree should know.

To put it simply, inflation is the rate at which prices for goods and services go up, while the value of currency goes down. For example, let's say the inflation rate is at 4%. At such a rate, a candy bar that costs \$1 will cost \$1.04 in a year.

Doesn't sound like a big deal, does it? Unfortunately, retirement costs a lot more than even the most expensive of candy bars, and it lasts a lot longer, too. As a result, the impact of inflation can hit harder. Here's another way to look at it:

Inflation = 4%			
One dollar today	In five years will be worth...	In ten years...	In twenty...
\$1.00	\$0.82	\$0.68	\$0.46

So, if you retire at age 65, and inflation remains at 4%, the value of your dollar will decrease by more than half in twenty years. Living until you are 85 has become commonplace nowadays, so this concept isn't just academic.

Here's one final way to look at the impact of inflation. Let's imagine that you retire at 65 with \$100,000 in annual retirement income. If inflation were to remain at 4%, then the value of your \$100,000 would shrink to less than \$50,000 in 20 years. In essence, that means you'll be living on *half* of your expected income by the age of 85. When you think about all the costs that come with retirement (living expenses, medical expenses, spending on leisure) then the thought of living on half your income should be sobering indeed.

Many retirees make the mistake of forgetting to calculate for inflation when they plan for retirement, but it's something you *must* consider. It's why sticking all your money into a savings account just isn't enough. It's why proper investing is so crucial—it's the best way for your money to grow in a way that *outpaces* inflation.

Keep in mind that I said *proper* investing is crucial. There are many ways to invest that, while useful, can also be negatively impacted by inflation. For example, take bonds. When you buy a bond, you basically loan money to an entity (either corporate or governmental) for a specific period of time. During that time, the entity pays you back at a fixed interest rate. When the term has ended, you then receive back the initial amount you invested to do with as you please. Bonds can be a good way to generate consistent income for yourself, but again, you have to factor in inflation. When inflation rises, so too do interest rates. When interest rates rise, the value of bonds decreases. So, if inflation rises during the term, you hold a bond, then the price of your bond will fall.

Fixed income investments in general can be negatively affected by inflation. As you may know, these types of investments pay a steady stream of money in interest, and then return a predetermined amount to you upon maturity. But with inflation, the value of that money can diminish every year. Let's say your investment pays out a 5% annual return. But if we stick with same rate of inflation as before, 4%, then your "real" return is only 1%. So, while you may

have a certain return “on paper,” the “real” return on your investment could be substantially lower than you thought. That makes it much harder to buy the goods and services you need.

The point of all this isn't to scare you away from bonds, or fixed income investments, or saving for retirement. The point is that inflation should take its place at the top of your list of things to prepare for. If you plan ahead, there are ways to protect yourself from a drop in purchasing power. By truly diversifying your portfolio, you can choose investments that act as “hedges” against inflation...which can make all the difference.

You've worked hard to earn your money, with the expectation that one day you can retire and truly enjoy it. Don't fall short of that expectation. You owe it to yourself to see your earnings *grow* rather than diminish.

Mistake #9: Not Calculating Your Expected Income and Expenses

There are a lot of factors to consider when it comes to retiring successfully. But there are two that should be near the top of every list: ***Income and Expenses***

Why are these two so important? To put it bluntly, it all comes down to this simple rule. *You cannot retire successfully unless your income is **more** than your expenses.* It sounds like a no-brainer, and it is. Yet I can't count the number of people I meet every week who have no idea what their income will be after their retirement...never mind if it will be more than their expenses. These people want to retire, they hope to retire, but they don't know if they really can.

Of course, there's more to retiring successfully than just being able to pay the bills. Retirement is all about finally having the time and opportunity to try new things, go new places, and learn new skills. Here again is why income is so important. All those things cost money. So how do you know what you can do after retirement if you don't know whether you'll have the money to do it?

This is what you need to do. First, sit down and calculate what your income and expenses are *now*. Here are some questions you need to answer.

- What is your monthly income after taxes?
- How much do you pay in monthly utilities?
- How much debt do you have, and what are your monthly payments like? Remember, this can include mortgage payments, car payments, credit card payments, etc.
- How much do you spend on automobile insurance, home insurance, gas, and other regular expenses? Don't forget to consider any out-of-pocket medical costs.

Step A: Once you've tallied those numbers, subtract your expenses from your income. Whatever number remains is what you must save for retirement.

Now, determine what expenses might change after retirement. For example:

- What expenses will you have to pay out of pocket that currently come out of your paycheck? An example is health insurance. If you receive health insurance from your employer, your expenses for this could go up after you stop working.

- What expenses do you currently have that will *decrease* after retirement? For instance, if you stop commuting to work daily, your transportation expenses will probably go down.
- What is your current tax bracket? Will it change after you retire and start earning less income?

Next comes one of the most important—and hardest—questions to answer.

- What will your health care expenses be after retirement?

No one knows what their future health will be like, but some research suggests that a 65-year-old couple who retired in 2022 will ultimately end up paying \$315,000 in health care costs and medical expenses in their retirement. That's 5% higher than 2021. Of course, those figures could increase if you have any pre-existing health conditions, like diabetes. Whatever your number is, how much of it will you have to pay out of pocket? That's an important question to consider too because you may not have the same coverage you did while you were working.

Also, don't overlook inflation. If health-care costs grow at just 2% above consumer inflation for the next two years, a healthy 55-year-old couple could face \$267,000 in additional medical costs when they retire at age 65, according to an [analysis by HealthView Services](#).⁷ That same couple could expect to spend more than \$1 million on health-care expenses in their lifetime — nearly the same amount as they could expect to collect in Social Security benefits.

Now comes the home stretch. Finish these final steps:

Step B: Take your existing expenses, and then add the amount of expenses that will go *up* after retirement. Next, subtract the amount of expenses that will go *down*. Hold on to that number for a moment.

Step C: Calculate the amount of income you expect to receive from any retirement accounts you have, like your 401(k), IRA/Roth IRA, etc. Then subtract the tax you'll owe on these accounts once you start using them. Any withdrawals you make from accounts that were funded with pre-tax dollars, like a regular IRA, will be taxed as income.

Take the final number from Step C and combine it with the amount you can save from Step A. Then compare it to the number from Step B. Steps A and C combined is your income after retirement. Step B is your expenses. Which number is higher?

Keep in mind, that every number you reach from this exercise is just a loose estimate. Too loose, in fact, to make financial decisions by. But at the very least, this should get you thinking.

In the meantime, just remember this fundamental truth: *you cannot retire successfully unless your income is more than your expenses*. Remember, too, that your income should be enough to cover your wants as well as your needs. So, start thinking about it today. It's a complex topic, but you've got plenty of time if you start working on it now.

Mistake #10: Not Dreaming About All the Amazing Things Retirement Can Be!

Life is a gift which unfortunately comes with an expiration date, and the date is unknown. This is the last mistake, and while I'm about to have some fun with this one, it's no less important than all the others.

Retirement is about finally having the opportunity to focus on *living*. It's no longer about getting ahead in life, but about experiencing life itself. For that reason, retirement should be fun. It should be enlightening. It should be rejuvenating. Above all, retirement should be whatever it is you want it to be!

However, there are many people who never take the time to dream. They never create their bucket list; never ponder their deepest, sweetest desires. It's quite possible to spend too much time worrying about *how* to retire and not enough on *why* you're retiring, or *what* you want to do in retirement. People who make this mistake run the risk of experiencing the worst scenario of all: Boredom.

When it comes to retirement, here's the first thing we at Fortress Financial Group always tell our clients: *"If you want to work for the rest of your life, that's your business. If you don't, that's ours."*

When it comes to retirement, here's the second thing we always tell our clients: *"If you can dream it, we can help you do it."*

Life is not just the passing of time, life is a collaboration of experiences. So, start today. Close your eyes and dream. Assume for the moment that you'll have both the money and the time. What do you envision yourself doing? Here are a few suggestions:

Write the next Great American novel.

Raise horses on your farm.

Start an entirely new career as a stand-up comic.

Learn how to cook Italian food...in Italy.

Work as a tour guide at the Guggenheim.

Follow the voyage of Darwin's *Beagle* through the Galapagos.

Listen to jazz in a smoky bar in Paris.

Have the freedom to do what *interests* you versus what needs to be done.

Design and build your own house.

Compete in AAU Masters swimming at 80.

Spend a year in Rio.

Restore an old sports car and drive to car shows.

Work for human rights for people in third world countries.

Build a log cabin from the ground up.

Retrace the *Endless Summer* surf odyssey.

Drop anchor at every island in the Caribbean.

Build your collection of fine wines.

SPEND TIME WITH YOUR GRANDCHILDREN.

You want more? We can help you do more. Like:

Create a beautiful garden. Give your spouse a chance at a career. Ski for 100 days a season. Volunteer in the inner-city neighborhood where you grew up. Finally, *finally* use all your frequent flyer miles. Create a world that consists of nothing but a **hammock**, a pitcher of lemonade, and a stack of John Grisham novels. Return to your family's farm and try to make a go as a farmer. Participate in guided tours of all the **ancient wonders** of the world. Open your own bed-and-breakfast. Finally get your college degree. Trek to the Himalayas. Visit all 50 states. Start another career. Scuba dive all over the world. Visit every major-league ballpark. **Relax.** Go on a Safari in Africa. Move to a college town and take all the classes you skipped 40 years ago. Write movie reviews for the local weekly. Climb a 20,000-foot mountain. Rent a barge for a canal tour in Europe. Invest in startup companies. Coach youth soccer, baseball, and basketball. Drive from Alaska to Patagonia. **Run** the Boston and New York marathons. Play as many of *Golf Digests* top-100 courses as possible. Play in a garage band. Play bridge for money. **Just play!** Go on at least three cruises a year. Act in a community theater. Visit all of the churches and museums that you successfully overlooked on your college-semester abroad. Dinner and a movie...every night! **Learn to play the piano.** Be a couch potato. Fix the sink. Take a trip down the Nile. Read Russian novels. Run for local political office. **Do absolutely nothing!** Give back to all of those who helped you. Do all the things you've been afraid of—skydiving, bungee jumping and hang gliding. RV along Route 66 with your spouse and your dogs.

Planning for retirement is about more than taxes and investments. It's about envisioning the life you always wanted to live.

So, what are you waiting for? Close your eyes and dream it.

We can help you ***do it.***

Remember: your retirement is coming up, which means it's time to start planning.

It's time to start *dreaming*.

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There is no guarantee that a diversified portfolio will enhance overall return or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Although bonds generally present less short-term risk and volatility risk than stocks, bonds contain interest rate risks; the risk of issuer default; issuer credit risk; liquidity risk; and inflation risk.

Asset Allocation may be used in an effort to manage risk and enhance returns. It does not, however, guarantee a profit or protect against loss.

Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds have more moderate short-term price fluctuations than stocks but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.

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