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Start planning now for a stress-free retirement

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RETIREMENT PLANNING

The possibility of outliving your savings is a frightening thought. In fact, according to the results of a recent poll published in AARP The Magazine, more than three in five adults aged 45 to 74 fear running out of money more than they fear death.

There is a collective desire to give serious thought to retirement planning. Here are five common pitfalls to avoid when planning your retirement:

1) Retiring too early. I run calculators frequently for people who have decided to retire today, or worse yet, yesterday. We usually find that working just one more year makes a significant difference in whether or not that person can make his or her money last.

Every situation is different, but it's always better to make an informed decision, isn't it? Run the numbers.

2) Taking on too much, or too little, risk with investments. Often retirees simply don't know how much risk they are taking.

Instead of properly planning and looking at their strategies, investors take a seat-of-the-pants type of approach. They hear a tip on CNBC and off they go. Please don't do that. Instead, determine how much risk you really are taking.

3) Discounting the value of Social Security. Social Security is a complicated landscape that requires a lot of knowledge to navigate.

Why is it so important? According to the Federal Social Security website www.ssa.gov, the maximum income a person turning 65 in 2012 can receive is $30,156 annually. If we were to use the old rule of thumb that we withdraw 4.5 percent of our principal annually to live on, this income stream would represent $670,133 in investable assets.

Another way to say this is that it would take $670,133 at a 4.5 percent annual withdrawal rate to produce $30,156. Would even the wealthy call $670,133 insignificant?

The Social Security Administration says claiming benefits early trims income substantially, while waiting until age 70 increases that amount significantly.

Why is this especially important? Because of the power of compounding. Postponing benefits today can lead to a much higher income in future years, especially for a surviving spouse.

4) "Don't put all your eggs in one basket." My grandmother has been telling me that for 40 years. But for some reason, emotion takes over when it involves our employer's stock. We just can't seem to part with it.

Try this idea on for size: "Don't love anything that can't love you back." Works in romance, works in investing. Your employer's stock does not love you. Don't love it back. Diversify. Of course, there is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification is not a firewall against market risk.

5) Listening to the wrong person. Occasionally a client will come to me with an idea. Since he or she heard it from a rich neighbor/relative/friend it must be good, right? But consider this: Our rich friends are rich for a reason.

They built a profitable business, inherited a tidy sum of cash, enjoyed a high-paying job and so forth. None of which necessarily makes this person a knowledgeable investor.

I'd even go so far as to say that many people accumulate significant assets, then spend the rest of their lives slowly losing it by making bad investment decisions.

The Tri-Counties is blessed with an abundance of talented investment advisors, so there is no need to cast about, looking for investment ideas from folks who may or may not know that much about the discipline of investing.

We're told that 10,000 people are retiring every day in this country. That's 3.7 million per year. At the same time, many folks are like my new clients, "John" and "Susan." Their plan had been to retire now, take early Social Security, buy an investment for income their wealthy friend suggested, and see how things worked out.

After running various calculators, we discovered that they would probably run out of money in their early to mid-80s. Susan's parents were still living and in their early 90s, so they decided to make different, more informed, decisions. I recommend that you do the same.

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