Eight Mistakes That Can Upend Your Retirement

Avoid these situations, if you can.

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No Strategy. Yes, the biggest mistake is having no strategy at all. Without a strategy, you may have no goals, leaving you no way of knowing how you'll get there – and if you've even arrived. Creating a strategy may increase your potential for success, both before and after retirement.

Frequent Trading. Chasing "hot" investments often leads to despair. Create an asset allocation strategy that is properly diversified to reflect your objectives, risk tolerance, and time horizon; then, make adjustments based upon changes in your personal situation, not due to market ups and downs.

The return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost. Asset allocation and diversification are approaches to help manage investment risk. Asset allocation and diversification do not guarantee against investment loss. Past performance does not guarantee future results.

Not Maximizing Tax-Deferred Savings. Workers have tax-advantaged ways to save for retirement. Not participating in your workplace retirement plan may be a mistake, especially when you're passing up free money in the form of employer-matching contributions.

Distributions from most employer-sponsored retirement plans are taxed as ordinary income, and if taken before age 59½, may be subject to a 10 percent federal income tax penalty. Generally, once you reach age 70½, you must begin taking required minimum distributions.

Prioritizing College Funding Over Retirement. Your kids' college education is important, but you may not want to sacrifice your retirement for it. Remember, you can get loans and grants for college, but you can't for your retirement.

Overlooking Health Care Costs. Extended care may be an expense that can undermine your financial strategy for retirement if you don't prepare for it.

Not Adjusting Your Investment Approach Well Before Retirement. The last thing your retirement portfolio can afford is a sharp fall in stock prices and a sustained bear market at the moment you're ready to stop working. Consider adjusting your asset allocation in advance of tapping your savings so you're not selling stocks when prices are depressed.

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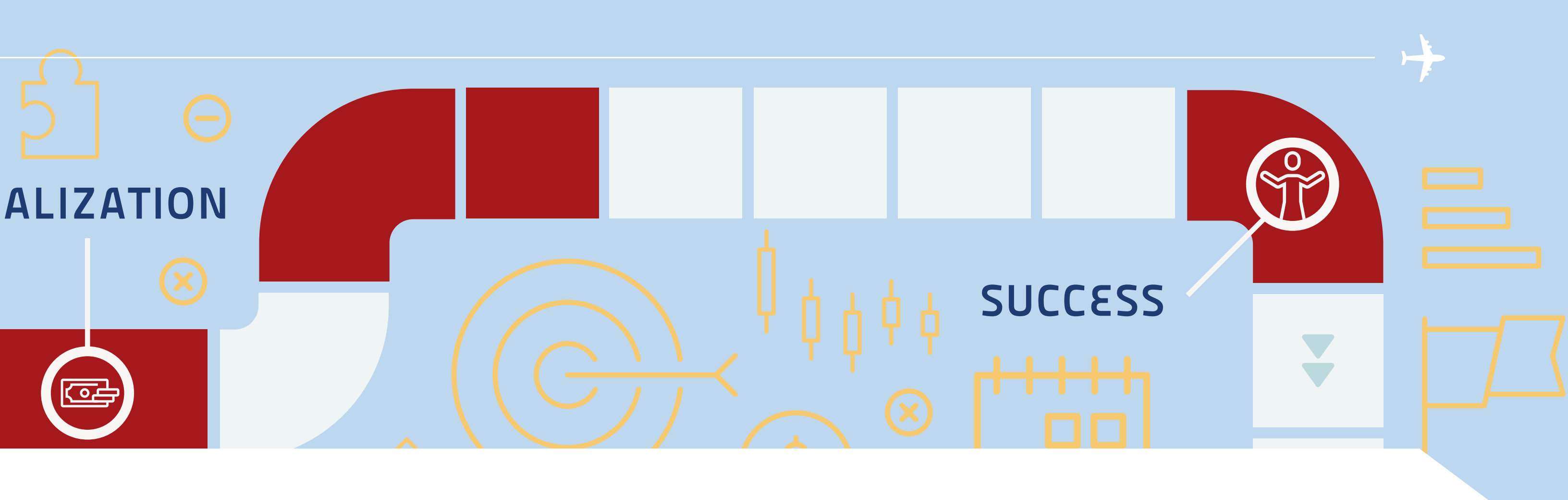

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Retiring With Too Much Debt. If too much debt is bad when you're making money, it can be especially harmful when you're living in retirement. Consider managing or reducing your debt level before you retire.

It's Not Only About Money. Above all, a rewarding retirement requires good health. So, maintain a healthy diet, exercise regularly, stay socially involved, and remain intellectually active.

How Healthy a Retirement Do You Think You Will Have? If you can stay active as a senior and curb or avoid certain habits, you could potentially reduce one type of retirement expense. Each year, Fidelity Investments presents an analysis of retiree health care costs.

In 2019, Fidelity projected that the average 65-year-old couple would spend around $285,000 on health care during retirement, including about $11,000 in the first year. Both projections took Medicare benefits into account.[2,3]

Could Healthy Behaviors Help You Save Retirement Dollars? Maybe. From another point of view, ceasing unhealthy habits certainly could. For example, the average pack of cigarettes now costs $6.28, according to the Centers for Disease Control. That adds up to $2,292 annually.

A decade of pack-a-day smoking therefore projects to $22,920 in expenses (and that does not even consider inflation or the possibility of new state or local cigarette taxes). If you could invest $2,292 a year for 20 years and realize a 7 percent annual return on that money, your sustained investment could grow to more than $100,000.

Think About Joining a Senior Wellness Program. Some communities offer classes developed through the National Council on Aging's Center for Healthy Aging. (NCOA is a nonprofit senior advocacy organization founded in the 1950s.) These physical activity programs are evidence based; the exercise curriculum has been shown to provide discernible health benefits to their participants. Often, they are low cost or free and low impact as well.[4]

Be Sure To Use Your Medicare Benefits. Medicare entitles you to an annual free wellness visit with a primary care physician. In this visit, you can have your blood pressure, weight, and overall health checked, and the doctor can also run a check for the possibility of dementia.

You also can get free screening for diabetes, certain kinds of cancers, hepatitis B and C, and heart disease under Medicare if your physician classifies you as "at risk" for these conditions. Medicare may even pick up the tab for smoking cessation counseling and obesity counseling for certain people.[5]

If you stay fairly healthy well into your retirement, there could be a nice financial side effect: an exemption, for the present, from expenses that some of your peers could be dealing with.

A Good Way To Retire Is Having a Bucket Plan To Go With Your Bucket List

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There is no easy answer to this challenge, but let's begin by discussing one idea – a bucket approach to building your retirement income plan.

The Bucket Strategy can take two forms.

THE EXPENSES BUCKET STRATEGY

With this approach, you segment your retirement expenses into three buckets:

- Basic Living Expenses (food, rent, utilities, etc.)
- Discretionary Expenses (vacations, dining out, etc.)
- Legacy Expenses (assets for heirs and charities)

This strategy pairs appropriate investments to each bucket. For example, Social Security might be assigned to the Basic Living Expenses bucket. If this source of income falls short, you might consider whether a fixed annuity can help fill the gap. With this approach, you are attempting to match income sources to essential expenses.

The guarantees of an annuity contract depend on the issuing company's claims-paying ability. Annuities have contract limitations, fees, and charges, including account and administrative fees, underlying investment management fees, mortality and expense fees, and charges for optional benefits.

Most annuities have surrender fees that are usually highest if you take out the money in the initial years of the annuity contact. Withdrawals and income payments are taxed as ordinary income. If a withdrawal is made prior to age 59½, a 10 percent federal income tax penalty may apply (unless an exception applies).

For the Discretionary Expenses bucket, you might consider investing in top-rated bonds and large-cap stocks that offer the potential for growth and have a long-term history of paying a steady dividend.

The market value of a bond will fluctuate with changes in interest rates. As rates fall, the value of existing bonds typically drops. If an investor sells a bond before maturity, it may be worth more or less than the initial purchase price. By holding a bond to maturity an investor will receive the interest payments due, plus their original principal, barring default by the issuer.

Investments seeking to achieve higher yields also involve a higher degree of risk. Keep in mind that the return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost. Dividends on common stock are not fixed and can be decreased or eliminated on short notice.

Finally, if you have assets you expect to pass on, you might position some of them in more aggressive investments, such as small-cap stocks and international equity. Asset allocation is an approach to help manage investment risk. Asset allocation does not guarantee against investment loss.

International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risk unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility.

The Timeframe Bucket Strategy

This approach creates buckets based on different timeframes and assigns investments to each. For example:

1 to 5 Years: This bucket funds your near-term expenses. It may be filled with cash and cash alternatives, such as money market accounts. Money market funds are considered low-risk securities, but they are not backed by any government institution, so it's possible to lose money. Money held in money market funds is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Money market funds seek to preserve the value of your investment at $1.00 a share. However, it is possible to lose money by investing in a money market fund. Money market mutual funds are sold by prospectus.

Please consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained from your financial professional. Read it carefully before you invest or send money.

- **6 to 10 Years:** This bucket is designed to help replenish the funds in the 1-to-5-Years bucket. Investments might include a diversified, intermediate, top-rated bond portfolio. Diversification is an approach to help manage investment risk. It does not eliminate the risk of loss if security prices decline.
- **11 to 20 Years:** This bucket may be filled with investments such as large-cap stocks, which offer the potential for growth.
- **21 or More Years:** This bucket might include longer-term investments, such as small-cap and international stocks.

Each bucket is set up to be replenished by the next longer-term bucket. This approach can offer flexibility to provide replenishment at more opportune times. For example, if stock prices move higher, you might consider replenishing the 6 to 10 Years bucket, even though it's not quite time.

A bucket approach to pursue your income needs is not the only way to build an income strategy, but it's one strategy to consider as you prepare for retirement.

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