6 Ways You Could Be Mismanaging Your Retirement Funds

By Scott Ho

More and more baby boomers are leaving the workforce to enjoy their golden years each day, but how many are actually financially secure for the entirety of their retirement?

Financial advisors are seeing new retirees make the same, avoidable mistakes year after year. When you're on a limited income, you can no longer afford to have unrealistic expectations and impulsive habits. Here are six mistakes which can derail your retirement plans. If you fall prey to any of these pitfalls, speak with your trusted financial advisor to secure a peaceful and secure life after retirement.

6 Mistakes You May Be Making with Your Retirement

1. Failing to Address Poor Money Habits & Sticking to a Budget

Not that you're retired, you have a lot of free time on your hands during which you can spend money. Too many retirees begin to hemorrhage money right after leaving work when their spending habits do not reflect their lack of a steady (or significantly smaller) paycheck. And without a budget, it will be easy for those small projects and new TVs around the home to drain your retirement portfolio.

Many retirees get into trouble because they don't establish a realistic budget for retirement—especially during the first few years, when they are most active. Since most people tend to underestimate their spending habits, financial planners suggest you track your current spending to make a budget. Once you know how much you're spending you can sit with a financial planner to help you stretch your retirement dollars.

This also means no impulse buys or regular bail-outs for the kids. It's possible to be too impulsive on assets that don't further your wealth. And it's possible to be too generous with children and charities, which can put your own financial security at risk.

Many financial advisors cite instances of overly generous retirees contributing to down payments for their children's first homes or stretching to pay for the college expenses of a child or grandchild even though they're struggling to fund their own retirements. Remember: while you can take out loans for college, you cannot take out loans to pay for your retirement – so do yourself (and your loved ones) a favor and revisit those healthy financial habits that got you this far.

2. Not Having a Financial Plan

Many new retirees fail to collaborate with financial advisors in the creation of a retirement or estate plan. These retirees may be missing out on expert knowledge on investment opportunities or tax advantages. And down the line, when it get harder to remember and manage your money, you will want a trusted advisor to help guide you along.

Prepare thorough financial and estate plans, and discuss future aging-related scenarios with a financial planner.

3. Being Too Conservative with Investments

Financial planners still feel new retirees are too conservative with their investments. Regardless of the limited income, the safer move for the long haul is to devote a healthy portion of your portfolio to stocks. Treasury bonds, certificates of deposit and other savings instruments with scant yields can give seniors a false sense of security without protecting them from market volatility and inflation in the long-term.

Retirement funds have to stretch longer to keep up with the long lives of most individuals. Speak with your investment broker or financial planner to ensure your portfolio is diversified and you can generate enough income to keep up with inflation.

4. Paying Too Much in Taxes

Oftentimes, retirees fail to make adjustments that could lower their taxes and save them money. There are three ways you may be paying more taxes than necessary after retirement:

1. Waiting to withdraw IRA (individual retirement account) funds
2. Not claiming residence in you lowest taxed property
3. Forgetting to deduct for volunteer expenses

Even though you may be in a lower tax bracket, waiting until you are required to take money out of your IRA is likely to trigger a taxable event, bumping you into the next tax bracket. Consider a gradual withdrawal of funds and other more effective strategies to protect your retirement income. And don't pass up opportunities for deductions on your donations and volunteer expenses.

And if you spend most of the year in a home out-of-state, you could save thousands by changing your residency (if you meets the state's minimum requirements). Consult with your tax advisor to see if changing your legal residency to a state with a smaller or even no income tax, such as Florida, can save you more.

5. Collecting Social Security Benefits Too Early

You may be making a costly mistake if you take those monthly Social Security benefits too soon. While you are allowed to start claiming Social Security benefits at age 62, the longer you wait the more money you can add to your payments over a lifetime.

Checks claimed at age 62 are about 25% smaller than if you wait until you reach "*full retirement age*," which is age 66. And for those who can afford to wait even longer, your annual benefits will grow by another 8% for each year you wait up to age 70. By collecting Social Security early, you will earn less over time.

In addition, married couples may be able to maximize their benefits by structuring when and how each spouse claims. If you are planning to take Social Security, investigate your options before you file, and speak with a financial planner to learn more about the strategy that makes the most sense for you and your finances.

6. Underestimating Your Long Lifespan & Health Care Needs

The biggest mistake new retirees make is to underestimate how long they will live and how long their retirement will have to last. The average lifespan is growing and many Americans will live into their 90s – with retirement beginning in their 60s, this could mean three decades of living off of retirement. And with the rising cost of health care, it will be harder than ever afford long-term care.

According to Fidelity Investments, a 65-year-old couple retiring now needs roughly $230,000 to cover medical expenses in retirement, not counting long-term care. Will your conservative investments and impulsive spending habits keep your accounts strong enough to cover these expenses?

If you need a referral to a great investment advisor, let me know. ---