AVOIDING 6 RETIREMENT FINANCIAL PLANNING MISTAKES

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Congratulations! You have been disciplined and focused on saving for your retirement. You have conservatively projected income sources and expenses. You now believe that because you have enough assets and income sources, that work is completely optional.

Former financial and stock market commentator Bob Brinker called this reaching "CRITICAL MASS" or as Bob said "a state of freedom from worry and anxiety about money due to the accumulation of assets which make it possible to live your life as you choose without working if you prefer not to work or just working because you enjoy your work but don't need the income. Plainly stated, the Land of Critical Mass is a place in which individuals enjoy their own personal financial nirvana."

No matter how diligent you have been in making your projections, sometimes people underestimate known expenses or neglect to consider other items that can put pressure on your retirement budget. Every person or couple is unique to the potential risks in retirement. Below are six specific areas to review and seek the assistance of a trusted financial advisor to ensure your plan will remain on track:

Major Expenses – Most retirement household budgets are accurate with the customary expenses, including property taxes, utilities, insurances, food, transportation, entertainment, vacations and so on. The problem arises when the big stuff happens. This is especially important when you are in retirement and your income is likely less flexible. For example, what's the plan when your home needs a new roof or heating/cooling unit? How will you pay for a new vehicle?

In a perfect financial plan, you would have a dedicated fund "bucket" you allocated money to from your income. Starting with an emergency fund of three to six months, additional dedicated buckets for larger future financial needs not only provide a way to be ready for such things, but also provides peace of mind.

Income Taxes – Everyone knows that income taxes do not go away in retirement. The biggest mistake some make is underestimating the amount of taxes due on pensions, traditional IRAs and 401Ks. When you start withdrawing funds from your traditional retirement accounts, 100% of such income/withdrawals is subject to federal income taxes. Depending on your income level, you may also have to pay taxes on a portion of your Social Security benefits. Depending on what state you live in, you may have state income taxes to pay as well.

It is also worth noting that the current tax rates and brackets are set to expire and increase at the end of 2025. In addition, the standard deduction will be cut roughly in half. While Congress may act and retain current tax rates, with growing federal budget deficits and the need to reform entitlement spending, we are likely to experience higher income tax rates in the near future. Make sure your income tax projections are accurate and that you have some flexibility in the event of a higher tax burden. It is always a great idea to have your CPA confirm your current and future income tax liabilities.

Health Care – According to a Fidelity Retiree Health Care Cost study, the average retired couple will need approximately $315,000 to cover health care and insurance expenses during their retirement. Even if you are on Medicare or have a generous health care plan from your former employer, you should expect out-of-pocket and non-covered health care expenses to be significant.

Having a health savings account (HSA) or a similar fund specifically for medical expenses can provide peace of mind and a financial buffer to your budget.

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Long-term Care – Thinking and planning for potential long-term care is one of the least favorite subjects of retirement planning. Ignoring this subject can be potentially devasting to your long-term financial plan. According to the U.S. Department of Health and Human Services, nearly 70% of 65-year olds will need some form of long-term care during their lifetime. Such care may include home care, assisted living and nursing homes.

Depending on your level of assets, it may be possible for you to self-insure and pay for long-term expenses. Some retirees have built a dedicated "bucket" of money allocated for long-term care needs, including using Roth IRAs. For many, shifting some of the risk to an insurance policy makes good sense. In recent years, several different types of hybrid policies have become available. Work with your financial advisor (not a long-term care insurance sales agent) and decide what works best for you.

Inflation – The last few years should have reminded all of us that inflation cannot be ignored. The longer you live, the more inflation will have a significant impact on your financial plan. When projecting your future cash flow needs, you must add in an annual inflation rate.

As you age, it is normal to decrease your exposure to the stock market. To mitigate inflation's impact over the long term, it is often prudent to continue to have a diversified portfolio, which includes some exposure to stocks. Your asset allocation and cash projections should be reviewed with your financial advisor and updated annually.

Your Family – You may be wondering why your family may be a risk to your financial stability. From gifts for a downpayment for a first home to student loans to digging someone out of a financial or legal "jam", far too many retirees find themselves financially assisting their adult children or other family members to their own financial detriment.

Assisting a family member is often more of an emotional decision than a financial one. It is wonderful to plan to be generous to the people you love, but if you have not included such assistance in your financial plan, doing so may put your own financial future in jeopardy. If you find yourself faced with such a decision, before jumping in to help, pause and call your financial advisor. A good advisor should be able to model out the impact of such a decision on your financial plan.

Next Steps – The above six risks to your retirement financial plan are only a partial list. Every individual and couple will have unique personal and family characteristics and challenges. Even if you have been successful with your own financial planning, it is wise to get a second opinion from a financial advisor who is a fiduciary (putting your best interest first).

Below are some questions to think about as you enjoy the fruits of your decades of labor and live the wonderful retirement you deserve!

QUESTIONS TO CONSIDER

- Is my retirement budget of income and expenses realistic?
- How will I handle major expenses, such as home repairs and new cars?
- Have I calculated my income taxes correctly?
- If income taxes increase, can my cash flow projections adjust?
- Should I consider a Roth IRA conversion?
- How will I pay for non-covered health care costs?
- What is my plan for potential long-term care costs?
- Have I adequately planned for the impacts of inflation?
- Am I taking too much or too little risk with my investments?
- Am I planning to give gifts/assistance to family members?