Lexus Group Consultancy in Tokyo, Japan: 5 Big Retirement Money Mistakes to Avoid

It’s never too late to start getting smart about money.

Maybe you’ve made it this far with few problems … you’ve done pretty well all alone just by winging it. Good for you.

But retirement planning isn’t about the past 30 years of your life — it’s about the next 30. And that’s harder. There are decisions you can’t undo, and mistakes are tougher to recover from when you don’t have a paycheck to back you up.

Here are five big money mistakes people make every day that a comprehensive retirement plan can help you avoid:

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Big Mistake No. 1: Choosing your retirement date based on age alone.

People often decide to retire at a certain age because it coincides with some well-known retirement milestone. They’ll settle on 65, for example, because that’s when Medicare kicks in, or 66 because it’s their full-benefit age for Social Security. Some even say 59½, because that’s when they can access their retirement accounts without any extra penalties. But before you decide when to retire, it’s crucial to assess your income needs and if you’ll have enough to meet them. If you retire before you’re 62, will you have enough money to draw from until your pension and/or Social Security payments kick in?

Remember, if you’re taking money from a tax-deferred account (such as a 401(k) or a traditional IRA), Uncle Sam will want his share. If you need $5,000 a month, you’ll have to withdraw closer to $6,500 just to net that amount. At the very least, you’ll spend down an enormous portion of your money very quickly, and you could put your entire retirement at risk. Which takes us to …

Big Mistake No. 2: Investing all your money in stocks.

If there’s a downturn in the market while you’re depending on your investment accounts for income, it could be devastating — especially if all your money is in equities. If those stocks drop 10%, 20% or more, and you have to sell them to pay your bills; you’re going to run out of money before you know it. The term “sequence-of-returns risk” should strike fear into every retiree’s heart. And don’t forget, those dividends that sound so good when you’re buying in aren’t guaranteed if things go bad.

Yes, with this bull market, it’s tempting to stay with stocks, but in retirement, a diverse portfolio is vital.

Big Mistake No. 3: Waffling on whether to buy an annuity.

There are pros and cons to annuities — the key knows what's best for you and your unique situation. And that's another reason why it's important to have a plan. This isn't a decision you should make based on what others tell you. Your adviser can help you determine whether you need an annuity based on whether you'll require guaranteed income at some point in your retirement. And if it would benefit you to have one, he can help you decide how large that annuity should be.

Big Mistake No. 4: Losing track of an old 401(k) account.

This is another one of those things that gets away from people because they get busy. It isn't that you forget about it completely — it's just not getting any attention anymore because you aren't adding to it. Which means the account probably isn't being updated to reflect your risk tolerance as you near retirement? Also, if the account isn't part of your overall plan, it may not include the proper investment vehicles to help you accomplish your goals.

You may think of it as benign neglect, but someone should be managing that money — either you or your financial adviser — whether you roll it over into an IRA or not. You absolutely don't want to just leave those dollars out there, waiting for something bad to happen in the markets.

Big Mistake No. 5: Being unrealistic about rates of return.

People hear that the S&P 500 has averaged a 9.6% return since 1930, and that's what they expect to earn. That number, of course, is deceiving. There are good years and bad years, and the typical investor will react to each in just the wrong way — selling low out of fear and buying high out of greed.

Unfortunately, many retirees have that 8% or 9% return in mind when they decide their withdrawal rate in retirement. If they only get 5% or 6%, they either have to adjust their budget accordingly — which takes discipline — or take on more risk. It's better to project a more conservative number that works within your overall plan — maybe 4% or 5%. If you get higher returns, great — but if you don't, you're far less likely to run out of money.

Final take: 4 keys to retirement success

Retirement should be something you can look forward to with confidence, and winging it won't give you that. Here are some keys to success:

1. **Take market risk seriously** when it comes to investing retirement money.

2. **Don't rule out any kind of financial product** without having a true understanding of how it would fit into your plan.

3. **Take control of all your retirement dollars;** make sure you're not forgetting about anything.

4. **Seek help from a professional who can guide you.** A retirement specialist can help you build a plan and will assist you as you make your way to and through this next stage of your financial life.