5 Retirement Planning Blunders

By Sharla J Jessop, CFP®

Knowing where to begin when it comes to retirement planning can be difficult. Avoiding these five retirement planning blunders can help prepare you to cross the bridge into retirement.

1. Thinking you can live on less money when you retire:

It's true that many expenses go away when you retire. You no longer have the cost of commuting back and forth to work, you may eat out less, and your dry cleaning bill might go down. Unfortunately there are numerous expenses that will quickly replace the ones you're hoping will go away. Take for instance travel. At retirement the feeling of freedom motivates people to travel to places they have always dreamed of seeing. Vacations that would have lasted a few days may expand to several weeks without the pressure to return to work.

2. Thinking you can spend more at the beginning of retirement because your needs will decrease as you age:

Generally speaking, the younger we are the more active we seem to be. Using this line of reasoning inspires retirees to spend more in the beginning years while they have good health to enjoy the fruits of their labor. While true, this thought process has some disturbing consequences. As we age, our cost of living actually goes up regardless of our activity level. Spending down your nest egg prematurely may leave your coffers empty when basic expenses are on the rise. Here are two of the culprits:

Health care—your cost for health care will increase as you age. Premiums will be higher, more services and drugs may be required as your body ages, and health care costs as a whole are inflating at an alarming rate. To further exacerbate the situation, Medicare only covers a portion of these expenses.

Long-term care—about 70 percent of people over age 65 require some type of long-term care services during their lifetime*. In Utah, the average cost to stay in an assisted living facility in 2012 was $2,650 per month and the average stay is 2.5 years. These increased expenses can quickly eat away at your nest egg if not addressed in advance.

3. Carrying debt into retirement:

Having a mortgage and other debts seems to have become customary. Some believe that owning your home outright is a bad investment. While leveraging your home can provide the money to make additional investments, the risk may be greater than the reward, especially at retirement. Debt in retirement is a fixed-income killer. While the value of each dollar compresses with time, the monthly debt payments

remain the same. Each year it takes a larger portion of your monthly cash flow to meet those debt obligations. Think of your home as your personal retreat, a place you can call your own, not as an investment asset.

4. Discounting the impact of inflation on the purchasing power of your dollar:

Inflation is like a silent thief; it slips in undetected and slowly reduces the value of each retirement dollar. Assuming that monthly cash flow will keep up with inflation may be one of the biggest misconceptions when planning for retirement. If you need $3,000 to live each month at the beginning of retirement, in five years you will need $3,478. In ten years it increases to $4,032; and by 20 years you will need $5,419 to live the same lifestyle. That's assuming a 3 percent rate of inflation. This doesn't take into consideration the higher rate of inflation unique to retirees or periods of hyperinflation.

5. Failing to design, follow, and update a retirement plan:

Let's be honest, you wouldn't build a house without a blueprint nor would you look for a surgeon who didn't finish medical school. Why leave your future to chance? Simple rules of a thumb are good for many things but should be avoided when planning for retirement. Take time to think about your retirement goals. Every year of your retirement income needs should be addressed. Break the years into segments or periods. Detailed planning allows you to assign a risk and expected reward for each segment. Assets that you will need in the first years of retirement should have less risk. The risk can be increased by segment assigning the highest risk to the assets that will be used later or may be passed to the next generation. Making these determinations in the beginning gives you a map to follow and can be used as a benchmark to make sure you're on track to reach your goals.

Designing the plan is just the beginning. You must review the plan often to address changes in your circumstances and make adjustments to help keep things on track. As with any important matter, it's essential to seek professional advice. Engaging the services of a professional will help you address and avoid major mistakes.

Smedley Financial Services specializes in helping individuals, couples, and business owners cross the bridge to retirement. Let us help you prepare for a successful retirement. Call us for a free analysis or second opinion of your specific situation (800) 748-4788 or visit us online at www.SmedleyFinancial.com

*U.S. Department of Health and Human Services National Clearinghouse for Long Term Care information. Research by Genworth.

Smedley Financial Services, Inc.® is an SEC Registered Investment Advisory Firm. Sharla J. Jessop is an Advisor Representative of Smedley Financial Services, Inc.® and Registered Representative of Securities America, Inc. Securities offered through Securities America, Inc. Member FINRA/SIPC. Smedley Financial Services, Inc.® and Securities America, Inc. are separate entities. Copyright 2012 Smedley Financial Services, Inc.® All rights reserved.

Scan this QR code with your smartphone for more information from Smedley Financial Services, Inc.

Are You Ready to Retire?

- Lifetime Income Planning
- Social Security Planning
- Retirement Planning
- Health Care Planning
- Investment Management
- Private Wealth Management

Smedley Financial Services is a full-service wealth management firm. We specialize in helping clients prepare for retirement. We apply a lifetime-income-planning strategy with the objective of maintaining a consistent flow of income throughout retirement.
Let us help you cross the bridge to retirement.

Smedley Financial Services, Inc.® is an SEC Registered Investment Advisory Firm. Roger M. Smedley, Sharla J. Jessop, James R. Derrick, Rodney A. Walker, Mikal B. Aune, & Shane P. Thomas are Advisory Representatives of Smedley Financial Services, Inc.® and Registered Representatives of Securities America, Inc. Securities offered through Securities America, Inc.Member FINRA/SIPC. Securities America, Inc. and Smedley Financial Services, Inc.® are separate entities.

420 East South Temple, Suite 420, Salt Lake City, UT 84111
(801) 355-8888 • (800) 748-4788 • www.SmedleyFinancial.com