How To Wreck Your Retirement

Planning for retirement is a decades-long process that with careful planning can help you reach your retirement goals. However, it's important to take note of the aspects of retirement planning that could be overlooked. Here are 10 things to avoid on the road to retirement.

Starting too late The earlier in life you start planning and investing, the longer your money has to grow. Gerald Wernette, principal with Rehmann Retirement Builders, provided this example:

Want to maintain your *pre*-retirement income *post*-retirement? If you start planning in your 20s, you should only have to set aside roughly 6 percent of your income. If you wait until your 30s or 40s, however, it may be necessary to set aside as much as 15 percent of your income. That's the power of compounding interest, and why you want to put that power to work for you sooner rather than later.

Of course, these numbers vary depending on each individual's situation, but a good rule of thumb is to set aside 12-15 percent of your income for retirement.

Rely on TV and the internet Every individual's financial situation is unique. Seeing a retirement planner can ensure that your individual needs are accommodated for. A plethora of financial information is doled out on TV as well as on the internet, so relying on cookie cutter advice could leave you vulnerable to unforeseen risks.

Making assumptions Many people assume that just because they diligently contribute to their 401k, that their retirement is taken care of. A report from the Center for Retirement Research at Boston College found many hopeful retirees are finding that their 401k plans simply aren't enough and are being forced to work longer than they had expected. Taking an active role in reviewing not only your 401(k) but any and all tactics in play is a smart move.

Underestimating how long you may live The fact is, Americans are living longer and longer every year. As a result, we may need to plan for retirement differently than previous generations. The Bureau of Labor Statistics suggests that if a married couple retires at 62, there is a 50 percent chance that one spouse could live to 92. It's important to talk to a financial advisor about how to best plan to accommodate a 30-year retirement. Underplanning may take some of the enjoyment out of the gift of a long life.

Taking on debt One of the easiest ways to wreck your retirement is to enter it with too much debt. If you're in your late 40s or 50s, think carefully before taking on long- term debt, such as a 30-year mortgage. Learn to set realistic expectations for your lifestyle or that "dream home" could have you making installments well into your 80s. Financial planners can help foresee the impact such a purchase could have on your retirement.

Setting a budget Creating and maintaining a budget both pre- and post-retirement is critical to a successful retirement plan. Do your best to minimize unnecessary expenses, like daily cappuccinos or dining out. Stick to your budget and leave your savings untouched.

Not diversifying One of the biggest mistakes people make in financial planning is relying on too few investments to grow a portfolio. There are many types of investments with varying degrees of risks. Keeping money in the bank or in CDs may seem like a safe investment, but your money won't even be keeping up with inflation. A financial planner will help explain the various ways your money can be invested more wisely.

Not knowing when to retire Social Security is an important source of income in retirement. The longer you wait to retire, the larger Social Security payments become. Wernette notes that waiting to retire can result in as much as a 30 percent increase in income. You've been paying into Social Security for decades, so why not maximize your benefits?

Overlooking extra income sources Just because you've retired doesn't mean you can't work anymore. Consider the skills you learned in your career prior to retirement. Subcontracting, consulting, or finding paying work related to your life-long hobby or passion can be great ways to generate extra income.

Not expecting the unexpected Many people assume that just because they have a diversified portfolio of stocks and bonds, with a healthy 401(k), their retirement is set. A financial planner can help you understand the risks that exist and develop confidence-building contingency plans. Without understanding the details of concepts like life insurance and Medicare, you leave yourself vulnerable to unnecessary risks.

Investing involves risk including the potential loss of principal. No investment strategy, including diversification, can guarantee a profit or protect against loss in periods of declining values.

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