7 retirement mistakes you can’t afford to make

Presented by Financial Engines
Mistakes.
01. Not taking appropriate investment risk.
02. Miscalculating how much you need to save.
03. Borrowing from your 401(k).
04. Not understanding Social Security.
05. Misjudging healthcare costs.
06. Underestimating your retirement tax rate.
07. Not planning for life events.
Hi, we’re Financial Engines.

We’ve been helping folks like you since 1996, transforming the way people plan, save and invest for retirement, regardless of their wealth or expertise. Our goal is to help put you on the path to a successful retirement. No sales pitch. No industry mumbo jumbo. No kidding.

Retirement. It’s not a subject we studied in school. If you’re young, you probably think it’s something you don’t have to think about until you’re “old.” If you’re at an age where you’re thinking about it, you probably have a lot of questions about it: Are you saving enough, are you doing it “right?”

This guide was meant to keep people on track toward their retirement by discussing common mistakes that often can reduce the value of what they’ve saved years for. It also provides some guidance about what you can do to avoid or correct those mistakes.

At least one thing in this guide probably applies to you right now.
Like anything in life, there's risk in investing. There are no “sure things.” Markets go up and down and impact particular investments in certain ways. Risk is simply the uncertainty of an investment delivering the return expected of it—it can either lose value or gain value.

There are two important factors to determine the right amount of investment risk for your retirement portfolio:

- **Your personal risk tolerance.**
  Does the nightly stock market report make you nervous? Or is it, to you, just a bunch of numbers that will change tomorrow? That might be a quick indicator of how comfortable you are with investment risk. Take too little investment risk, and you might not generate enough income to sustain your successful retirement. Take too much, and you might see tremendous growth in your portfolio—only to experience a significant drop due to one major market downturn.

- **Your timeline to retirement.**
  Conventional investing wisdom says that the further you are from retirement, the more investment risk you can assume, given that you have more time to ride the ups and downs of the market. Consider in 2008, the S&P 500 price level fell 38.49%. It returned to its previous pre-recession level 22 months later. If you had been 15 years away from retirement, that decline would not have had a significant impact on your retirement plans. If, however, you were 15 months away from retirement, that would have been a different story altogether.

**The bottom line.**
Risk and retirement timelines are fundamental to planning a successful retirement strategy. However, these vary from person to person: What works for someone else might not be ideal for you. If you’re not sure where you stand on either, talk to a professional advisor who can provide an objective assessment.
If anyone has saved “too much money” for retirement, we haven’t met them. Unfortunately, there are plenty of people who have saved too little. Retirement can come with a whole new set of expenses: more travel, more time for the hobbies and adventures you couldn’t fully enjoy while you were working, maybe a vacation home. Whatever your vision of retirement, it deserves to be carefully planned and budgeted for, and managed.

Expenses you might face both now and in retirement:

**Caring for family.**

The last U.S. Census determined that 22.6 million adults aged 18 to 34 still live at home with their parents. Twenty-one percent of middle-aged adults have provided financial support to a parent. Or maybe you’re part of the “Sandwich Generation”—one of the 47% of Americans in their 40s and 50s looking after both your children and your aging parents. Healthcare, education, and nursing-home costs on top of the expenses of everyday life can deplete your savings beyond what you’ve prepared for.

**Divorce.**

“Happily ever after” and “until death do us part” won’t happen for 28% of couples over the age of 50. Most couples saved together for decades, assuming they would retire together. After a divorce, they face the expenses of a pre-or post-retirement life, but with half their savings.

**Inflation.**

Many people don’t realize inflation can erode the value of your savings. That $100,000 you have in your retirement account may seem like a lot of money to you today, but what will it be worth in five, 10, 20, or more years?*

* Assumes annual inflation rate of 3.5%

### The bottom line.

You need a comprehensive written retirement plan to help you understand your income needs. Just as important, you should **update your plan regularly** to account for inflation, health issues, and other curveballs life may throw at you.
We get it. Life can be unfair sometimes: Maybe you lose your job, have a serious health emergency, or face some other reason that you need a lot of cash. Banks make you jump through too many hoops for a personal loan, credit cards charge too much interest ... and suddenly, you start looking at your 401(k) account and doing some quick calculations about pushing your retirement off a few years to make up for taking some money out.

Again, we get it: It’s your money, and you need it now. But take a second to see how this could adversely affect your retirement plans.

Borrowing from your 401(k) may result in the following:

- **Losing growth potential on the money you borrowed.**
  Let’s say you took $10,000 out from your 401(k) in a 10-year loan. Assuming a 6% interest rate on the loan and an average 8% rate of return, you've lost more than $4,000 in earning potential.

- **Losing out on your employer match.**
  When you take a loan out, it’s tempting to cut back on, or stop contributing to, your retirement account. Do either of those things, and you’re basically leaving free money on the table if you don't qualify for any part of your employer's contribution.

- **Repayment and tax issues, if you leave your employer.**
  If you change jobs, you’ll likely have to repay the balance of the loan in full within 60 days. If you can't, or don't, the balance will be treated as a taxable distribution. If you're younger than age 59-1/2, you'll pay a 10% penalty on top of regular income taxes. Ouch!

**The bottom line.**

Make it a priority to set aside three to six months of savings in an emergency fund so you can tap that first instead of your retirement nest egg. Otherwise, you should only consider borrowing from your 401(k) or other retirement account to avoid bankruptcy, losing your home, or to pay for serious medical expenses.
When many of us think of retirement savings, we immediately think of some scenario that involves retiring at age 65 and collecting Social Security.

Yet it wasn’t meant to be the end-all, be-all of your retirement savings. It should be considered just one of your sources of retirement income, along with your employer-sponsored retirement plans—like 401(k)s, 403(b)s, IRAs, and pensions—plus your personal savings.

But Social Security is arguably the most complex of your retirement options. There are a lot of different ways to file for it—to the tune of hundreds of filing strategies, even several thousand for some households. And for most people, full retirement age isn’t even 65 anymore.

Decisions regarding Social Security are highly personal and depend on a number of factors such as your health and family longevity, whether you plan to work in retirement, and whether you have other income sources as well as your anticipated future financial needs and obligations.

Calculating Social Security benefits is complex.

Your Social Security benefit—what you’d receive each month—is an average of your 35 highest-earning years, plus some adjustments for inflation and other things. For 2016, that formula is based on:

- **90%** of your first $856 in monthly earnings
- **32%** of the amount you make between $856 and $5,157
- **15%** of the amount above $5,157

In addition, you have to accumulate 40 “credits” first. For 2016, those are worth $1,260 in salary with a maximum of four per year. Put another way, as long as you earned $5,040 each year of the last 10 before you retired, you’d be good. But not so fast....
You get more if you wait.
You can start collecting Social Security as early as age 62. It’s probably better to wait until you reach your “full retirement age” (FRA). Traditionally, we all think of that as age 65, although it’s gotten higher.

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<th>Year born</th>
<th>Your FRA</th>
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<tr>
<td>1943-1954</td>
<td>66 years</td>
</tr>
<tr>
<td>1955</td>
<td>66 years, 2 months</td>
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<tr>
<td>1956</td>
<td>66 years, 4 months</td>
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<tr>
<td>1957</td>
<td>66 years, 6 months</td>
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<tr>
<td>1958</td>
<td>66 years, 8 months</td>
</tr>
<tr>
<td>1959</td>
<td>66 years, 10 months</td>
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<tr>
<td>1960 and later</td>
<td>67 years</td>
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The latest you can wait to file is age 70. However, if you wait to collect after your FRA, you’ll get 8% more per year. Conversely, the earlier you collect will reduce your benefit between 5% and 6.67% each year, depending on how far you are from your FRA.

Your benefits are inflation-proof.
Unlike retirement accounts, Social Security is indexed for inflation, due to annual cost-of-living increases.

You could be eligible for more.
Social Security offers other benefits for spouses, survivors of deceased workers, and for those who become disabled and can no longer work.

Curious what you might have from Social Security?
Use our free, confidential tool.

The bottom line.
If you read this far, thank you. The Social Security Administration’s handbook has more than 2,700 rules. You don’t need to be an expert in them—but it sure helps to work with a financial professional who is, to make sure you’re eligible to receive the maximum amount you’re entitled to.
Health care is the second largest expense for retirees, behind housing. According to the Employee Benefit Research Institute (EBRI), Medicare only covers 60% of healthcare expenses for retirees.\(^6\)

Certainly, Medicare is a solid foundation for health costs. Keep in mind though, that Medicare:

- Has no out-of-pocket limits for covered expenses.
- Doesn’t cover routine services such as dental care, dentures, vision and hearing care, custodial or long-term care.
- Will require participants to pay 25% of prescription costs by 2020.\(^7\)

**Expected healthcare costs for:**\(^8\)

<table>
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<tr>
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<th>A 65-year-old man:</th>
<th>A 65-year-old woman:</th>
<th>A 65-year-old couple:</th>
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<td></td>
<td>$136,000</td>
<td>$178,000</td>
<td>$266,600</td>
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Life expectancy certainly plays into this: Women live longer than men, and couples live longer than single people. Supplemental health insurance can help fill in any gaps in coverage, but that’s a topic for another guide.

**The bottom line.**

Nobody can predict the future. If you don’t know how healthcare expenses could affect your retirement or whether you’re saving enough for your future needs, talk to a financial professional.
When you retire, you leave the salaried life behind and begin to live off of your savings. In many cases, you’ll have to pay taxes when you take money from your traditional 401(k)s, IRAs, Social Security, savings and/or pension accounts, and you may find yourself in a higher tax bracket than expected if you haven’t put a plan together on how to limit Uncle Sam’s take.

Things you can do:

- **Reduce your expenses.**
  The less you can withdraw from your retirement savings each month will help reduce your taxable income and possibly your tax bracket as a result.

- **Pay off your mortgage before you retire.**
  It’s usually your largest monthly expense. Getting it out of the way sooner can give you more flexibility and lower expenses in your retirement.

- **Convert your traditional IRA or pretax 401(k) account to a Roth IRA.**
  With a Roth IRA, you don’t have to start taking your required minimum distribution at age 70-1/2 like you do with the other two accounts. While you don’t get any tax breaks for contributing to a Roth, you can usually take tax-free earnings and withdrawals (based on certain conditions). And with increased life expectancies, a Roth IRA provides extended IRA investing benefits for as long as you leave money in the account.

**The bottom line.**

Retirement isn’t just about how much you saved. It’s also about how you access what you saved, in order to get the most advantageous tax treatment. Decisions regarding withdrawals and conversions can be complex. Talking to a professional advisor or CPA can help you create a thoughtful plan for managing your post-retirement taxable income and tax bracket.
Nobody likes to think about—much less discuss—their mortality. But having no plan in place to protect or pass along your retirement savings could drastically change your, your spouse's, or your family's quality of life.

Things you should do as soon as possible:

**Update your beneficiaries regularly.**
Contrary to popular belief, your will does not dictate who receives your retirement savings. They're separate documents, governed by different laws. If you've remarried, for example, make sure your ex-spouse is not listed on longstanding retirement accounts as your current beneficiary.

**Have a will, estate plan and an investment plan.**
Having plans in place ensures that your wishes will be carried out when you can no longer make those choices known. Even if one spouse is responsible for investment decisions, both spouses should know where the important documents are and understand what they mean.

**Express your wishes.**
You may want to make powers-of-attorney and healthcare proxies part of this process as well. Have frank discussions with your spouse and family about your decisions so there's no confusion or surprises.

**The bottom line.**
Losing a spouse or family member is devastating. Having a financial or estate plan in place can reduce the shock and stress of a deeply upsetting time. Make it a priority to talk to an investment advisor and your attorney to get this done.
You only get one shot at retirement. Don’t you deserve to get it right?

Planning and saving for retirement is complicated. In addition to avoiding the aforementioned mistakes, there are ways to help maximize what you may already be doing. Our goal is to help put you on the path to your successful retirement through objective advice and clarity.

Spend some time with us: either on the phone, or at your local Financial Engines Advisor Center. In an hour, you can come away with a comprehensive retirement plan that could relieve your worry, make your savings more efficient, and give you confidence and peace of mind.

The plan is free, with no obligation.

In your session with your Financial Engines advisor, you’ll discuss:

- Your retirement and investing goals
- How you’re currently saving for your retirement
- How probable it is that you’ll reach your goals, based on what you’re doing now
- Ways to increase your likelihood of success
- What your appropriate strategy should be, based on your life situation and comfort level with investing

Your retirement is our favorite subject. Let’s talk.

Research shows that people who work with an advisor are on track to have 29% more retirement income versus those who go it alone without help.9

Get help. Get a retirement plan.

Get closer to where you want to be someday. Call us today at (866) 303-3809.
References & disclaimers.

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