

Six Missteps to Avoid as You Transition to Retirement

Don't lose sight of your finances when you finally reach retirement. These six classic missteps can chip away at the nest egg you've worked so hard to build.

Saving for retirement can be challenging, but the goal is clear: Accumulation. The more you save, the better your chances of living comfortably when you stop working.

Things can get more complicated, though, when you start the shift to retirement. Preserving and protecting the money you've saved — while also enjoying the retirement you dreamed about — becomes the priority. And without a written retirement plan that covers all the potential risks you might encounter, it can be easy to lose focus, miss something important or make uninformed decisions that could get in the way of your success.

Here are six common missteps that a comprehensive retirement plan can help you avoid.

1. Underestimating expenses

Many people fail to estimate their retirement expenses accurately — and for good reason. Budgeting for just one year ahead can be difficult enough; calculating how much you might need in 10 or even 20 years is just plain daunting. One way to help yourself prepare is to start setting spending priorities (think needs vs wants, and fixed vs flexible costs).

Keep in mind your spending may change as you age, so it might help to divide your retirement into three phases. In the first phase, you're younger and more active — traveling, golfing, biking, taking up new hobbies and going out with friends.

In the second phase, you may choose to simplify your lifestyle, perhaps downsizing your home and focusing on more leisurely activities. In the third phase, you prioritize comfort, potentially adjusting for health or transitioning to a more supportive living environment.

2. Not diversifying investments

Relying too heavily on one type of investment — such as stocks or bonds, or even just cash — can be risky at any time. But in retirement, it's particularly important to review and adjust your asset allocation to fit your income needs, your goals and your time horizon. A well-diversified portfolio can help you better withstand market fluctuations, while also continuing to grow your money for the future. ^{1,2}

3. Not understanding tax implications

Without proper tax planning, your retirement savings are extremely vulnerable, especially if you've stashed most or all of your money in a 401(k) or similar tax-deferred plan. Many savers don't realize withdrawals from these types of accounts will be taxed as ordinary income, and they don't take advantage of Roth accounts and other strategies that could help them hold on to more of their money in retirement.

4. Failing to optimize Social Security benefits

For many people, Social Security will be a major portion of their retirement income — but timing matters. Claiming your benefits before you reach your full retirement age can permanently reduce your payments; while delaying can significantly increase the amount you'll receive each month. It's also important to consider how your benefits may be taxed from year to year.

Depending on your income, up to 85% of your Social Security benefit may be subject to tax. So, understanding how Social Security fits into your overall retirement plan is imperative.

5. Ignoring health care and long-term care costs

People often overlook the toll that health care and long-term care costs can take on their savings, especially later in retirement. Many don't realize that Medicare doesn't cover everything, and even the most robust "rainy-day" fund can be quickly depleted by out-of-pocket expenses. Failing to plan for these costs could lead to financial stress and/or inadequate care for you or your spouse.

The tools that can help — health savings accounts (HSAs), long-term care insurance or insurance products that offer a long-term care rider — work best when they're put in place long before they're needed. ³

6. Underestimating longevity and inflation

Many people fail to plan for the possibility that they might live for three or more decades in retirement, and over the years, even mild inflation could erode their savings and affect their purchasing power. This is why financial advisers often recommend keeping a percentage of growth-oriented investments, such as stocks, exchange-traded funds (ETFs), index funds and others in your portfolio — based, of course, on your age, risk tolerance and other factors. ^{4,5}

If your retirement prep has been heavy on saving and investing, but light on shielding the nest egg you've worked so hard to build, it may be time to ask a qualified financial adviser to help you make that transition.

After all, it's not how much you managed to save that matters most. It's how much of that money you'll get to enjoy during a long and fulfilling retirement.

Written by Bill Leavitt, for Kiplinger.com, published November 2024

¹ There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. (26-LPL)

² Asset allocation does not ensure a profit or protect against a loss. (34-LPL)

³ Riders are additional guarantee options that are available to an annuity or life insurance contract holder. While some riders are part of an existing contract, many others may carry additional fees, charges and restrictions, and the policy holder should review their contract carefully before purchasing. Guarantees are based on the claims paying ability of the issuing insurance company. (100-LPL)

⁴ Stock investing includes risks, including fluctuating prices and loss of principal. (132-LPL)

⁵ ETFs trade like stocks, are subject to investment risk, fluctuate in market value, and may trade at prices above or below the ETF's net asset value (NAV). Upon redemption, the value of fund shares may be worth more or less than their original cost. ETFs carry additional risks such as not being diversified, possible trading halts, and index tracking errors. (73-LPL)