PROFESSIONAL FINANCIAL
Purposeful Wealth Management

Wealth Planning Report

Five Big Retirement Money Mistakes to Avoid

Managing your retirement resources requires an entire series of financial planning decisions that must be thoughtfully made both before and throughout retirement. Unfortunately, few families develop a systematic approach to prepare for those decisions and how best to arrange making them. Mistakes can be made that will irreversibly impact your future security and well-being.

Many significant mistakes are made simply due to failing to have a financial plan. Frequently investment portfolios are negatively impacted due to impulsive decisions. As a result, years of successful accumulating before retirement can become seriously undone when you are well into your golden years—which, in turn, may put your retirement hopes and dreams and even your basic financial security in danger at a time when re-employment is impractical or impossible.

Whether you're already retired or still progressing toward retirement, it's a good idea to be aware of common decisions so as to avoid making uninformed choices. Here's a list of common money mistakes in retirement—and how to avoid them or possibly mitigate a poor choice.

Mistake: Too much spending too soon. Frequently affluent people with significant wealth and good health at their time of retirement tend to overspend in the early years. It may be due to buying a dream house or taking too many expensive trips. Many high earners are used to spending as they like during the later part of their careers. So, they don't bother with budgets or carefully watching cash flow like those on fixed pensions or with limited resources. Often, they imitate what others spend and think they can, too. The result: when their working stops, many families lack clarity on what is needed to support both spouses over what may be thirty-years.

With good health and time, many get carried away by "living it up" early in their retirement when the thrill of freedom from work can feel intoxicating, especially when compounded during a market boom by a wealth effect creating an illusion of being able to spend without guardrails.

Our advice is to professionally stress-test your proposed spending with a three-phase retirement (go-go years, slow-go years, and no-go years)—and build-in flexibility to modify plans, say due to a spouse developing Alzheimer's or contingencies like long-term care. In particular, plan for fluctuating investment cash flows. Conservative projections should be the basis of wealth planning assumptions, with regular check-ins that benchmark the level of successful progress.

Mistake: Not having "money talks" with family. All too often, family heads avoid discussing personal financial matters with their heirs. Family infighting frequently occurs down the road as a result, such as when assets transfer (or don't transfer, as the case may be) to the kids and other relatives. In worst-case scenarios, lawsuits destroy family wealth, and family relationships are torn apart. Even when transfers happen as expected, enriched heirs begin over-spending.

One idea: Work with your family members (using trusted financial professionals) to create a written family mission statement that spells out your family's values and how their inheritance should support those values. Give heirs a purpose. Such clarity can help them (and advisers) understand why family money is being passed on, rather than previously spent or gifted.

Lesser mistakes

Mistake: Missteps with Social Security. Even for those with significant financial assets, Social Security payments can be an important component for income flooring. So, avoiding unnecessary reduction of a margin of safety that Social Security provides is essential planning.

It's generally well known that claiming benefits too early is a costly mistake. You lose about 8% per year of inflation-protected income. Other lesser-known possible mistakes include:

- **Waiting too long to claim.** Some people should consider claiming early. They include (but aren't limited to) single people in poor health who are unlikely to live more than ten years or so, and married couples where the lower earning spouse has very poor health.

- **Reducing work due to earnings limits.** If you claim Social Security before January 1 of the year in which you reach full retirement age, and earn above a certain threshold, your benefit is reduced by $1 for every $2 of excess earnings. But rather than saying no to paid work because of that adjustment, continuing substantial employment likely is smarter. The reason: Your benefit will be adjusted upward once you reach full retirement age—meaning you are very likely to recoup much more than the money you "lost."

Mistake: Choosing the "wrong" income withdrawal approach. The "right" plan depends on an individual's goals and their situation, of course. That said, many approaches are inefficient or suboptimal in ways not readily apparent. An informed withdrawal plan not only factors for health and life expectancy and periodic income needs, but also how much withdrawals from different accounts are taxed so as to keep marginal tax brackets lower or avoid Medicare surcharges.

Advice: Don't assume a "rule of thumb" approach—such as the 4 percent per year withdrawal rule—is affordable for you simply because it's simple to implement. However, don't discount another methodology just because it is simple. *Run the numbers* and test various alternatives.

Mistake: Making investing your new retirement hobby. With an abundance of time and a limited amount of money to spend, some retirees begin watching the financial media to "play the market." Many self-made individuals such as former entrepreneurs mistakenly believe that the skills that made them successful in business apply equally well to their investing methods.

Overconfidence, as we term it, typically leads to various classic investment errors—investing too aggressively, chasing hot tips, over-concentrating assets in companies or sector, excessive trading that ignores market impact or boosts taxes. We've seen or heard about many disasters.

Best bet: Don't play games with your wealth. Get a trusted CFP® professional to guide you.

Conclusion

What had been a financially healthy, secure retirement can be all-to-easily jeopardized. Once you're no longer working but making systematic account withdrawals, there is less time and far fewer ways to recover from financial mistakes without lifestyle adjustments. That's why a truly professional process for making decisions about your wealth is so important. We at Professional Financial empower families to make a lifetime of informed decisions in an increasingly-uncertain world for a healthier, wealthier life where you can not only survive, but thrive with confidence.

This is an executive summary of our wealth management ebook. For a complimentary copy of our complete report, please contact us.

Paul Byron Hill, MBA, MFP, MSFS, ChFC®, RICP®, CFP® is a nationally recognized Wealth Management Certified Professional™ and Certified Financial Planner™ professional, written about in *Fortune, Forbes, Bloomberg Businessweek,* and *Money*. Paul is the co-author of *Retire Abundantly*. Reuters AdvisePoint once recognized Mr. Hill as one of 500 "Top Advisers" in the U.S. and featured him in an interview on their website.

Paul founded Professional Financial Strategies, Inc. in 1993 as one of the first fiduciary planning firms that specializes in retirement and wealth management for affluent and aspiring families. Paul is a personal chief financial officer acting in best interest of clients. He brings together a proven process and a network of specialists for making informed decisions for systematic strategies, secure income, mitigating taxes, protecting assets, and preserving wealth for family and purposeful causes.

Mr. Hill received a BA with distinction from the University of Rochester and later an MBA in finance from its Simon School of Business. He earned an MS in financial services from The American College along with his Chartered Financial Consultant and Retirement Income Certified Professional designations, and then received an MS in financial planning from the College for Financial Planning (now at the University of Phoenix). The College for Financial Planning appointed him as adjunct faculty, and he taught at St. John Fisher College. Who's Who presented Paul with the Albert Nelson Marquis Lifetime Achievement Award, and featured him with others in *The Wall Street Journal* and other publications.

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