6 Retirees' Money Mistakes: Perennial Pitfalls

By Julia Valentine, founder of www.JoyCompass.com

The only mistakes to regret in life are those that could have been prevented. While all of us navigate the world of economic uncertainly, there are some fundamental principles that still hold. Keep them in mind, and you will avoid the common mistakes that retirees make with their finances.

1} Taking financial advice from friends and family over that of professionals

People routinely take financial advice from their hairdressers, manicurists, or friends and family without doing any additional research on their own. Effie, 89, had her family insist that she buy a house in Las Vegas, which her nephew allowed to go into foreclosure for missed payments, and then keep the nephew on as a renter. "If he did not make the payments to keep his own property, why would he make payments to you?" I asked. "If you do not collect this rent, would you be all right with that, or would you be stressed out? You need to know this now, before you take the next step." The family pressure prevented Effie from assessing the situation critically. However, when she considered it from a more rational angle, it occurred to her that she could be walking into a potential confrontation, and she chose not to proceed.

Trusting advice of someone you see often, especially someone who works with a lot of people and is privy to the latest gossip, is appealing to many. Kate, 62, bought an investment property in Florida on advice of her hairdresser, who saw many clients flip their houses for a profit. Unfortunately, Kate bought at the end of the boom and did not do any independent research on the area. The value of the house is now underwater, and she is reminded of it every month when she lays out $600 to cover the difference between the rental income she receives and her mortgage payment.

***Bottom line:** Even the most well-intentioned and insightful advice does not replace that of a financial expert, accountant, or attorney to aid with critical decision making that will impact the entirety of your life, for the rest of your life. Identify a team of experts you can count on for advice. Do your own research in addition to that.*

2} Underestimating inflation

If your nest egg is not earning enough to stay ahead of inflation and taxes, your retirement lifestyle is likely to get scrambled well ahead of its time. Consider the cost of a U.S. stamp: in 1951, it cost $0.03; in 1981, it went up to $0.15; in 2011, $0.44. What will it cost in 30 years?

***Bottom line:** When you balance the income you will receive in retirement with the expenses you will incur, remember to build in inflation in these calculations.*

3} Withdrawing too much money early on in retirement

Surveys show that the typical American is not knowledgeable about health care costs, life expectancy, income needs, and other risks. Longevity risk – the most enjoyable of all retirement risks – is the risk of running out of resources later on in life. Proven techniques include creating a retirement plan that balances your income and expenses, and an investment plan. New instruments, such as longevity insurance, provide for additional income after age 85.

***Bottom line:** A good financial plan will help avoid running out of resources later on in life. Maintain or even increase your standard of living.*

4} Lacking a financial plan

According to a Dartmouth University study by Annamaria Lusardi, planners create twice the wealth of people who do not plan. Create a retirement plan that has a balance sheet (so that you are aware how you will balance your income and expenses in retirement), an investment plan, an estate plan, and invest some time in basic financial education to protect yourself against financial scams.

While it may **sound** boring or complicated, some of these steps are really very simple. For example, estate planning may include writing down a list of accounts on paper and storing them in a safety deposit box where a family member can access them. According to the National Association of Unclaimed Property Administrators, state treasurers currently hold $32.9 billion in unclaimed bank accounts and other assets. According to the U.S. Department of Labor, $850M in 401(k) assets go unclaimed each year.

***Bottom line:** A good financial plan creates wealth and gives you a peace of mind. Need help? Go to JoyCompass.com, where we are creating a step-by-step retirement plan this year. It works so well that the Sirius XM radio (Let's Talk Money! Channel 141) is devoting the entire program once a month to discuss it. Look up the schedule at JoyCompass.com.*

5} Failing to adjust the asset allocation in your portfolio with time

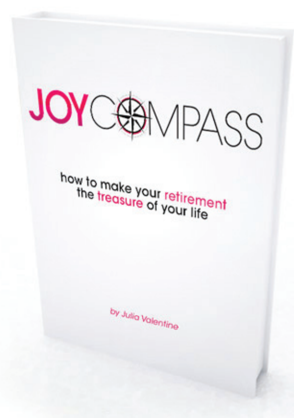
Having an inappropriate mix of investments for one's lifestyle goals, timeframes and risk tolerance is essential. Remember that these need to be re-evaluated every year.

***Bottom line:** Invest the time in understanding your risk tolerance and review your asset allocation once a year.*

6} Failing to educate yourself about financial scams

1 out of 5 Americans over 65 has been a victim of a financial scam, according to the Washington-based non-profit Investor Protection Trust. More than 7.3 million seniors are taken advantage of financially through inappropriate investments, high fees or fraud, at a cost of more than $2.6 billion a year. Four in five cases are not reported, according to the MetLife Mature Market Institute Study, March 2009.

***Bottom line:** Learn about the five types of financial scams at JoyCompass.com.*



Speaker and JoyCompass.com founder Julia Valentine is the author of 'Joy Compass: How to Make Your Retirement the Treasure of Your Life.' Through cutting edge research in finance, motivation, and creativity, JoyCompass.com offers a revolutionary new approach to preparing for, designing, and enjoying life in retirement. Julia is a monthly featured financial expert on Let's Talk Money! Sirius XM Channel 141. Julia may be reached online at www.JoyCompass.com *and on Facebook.*