

# Seven Pitfalls On Your Way To Retirement



Heidi G. Clute, CFP

Is it time to check up on your retirement plan? The biggest fear among investors is that they will not have enough money for a secure retirement.

You can make sure your own plan does not fall short by steering clear of the following pitfalls. These are the most common comments I hear in my professional practice:

**1. “I don’t know how much money I’ll need in retirement”.** I find that most people have no idea what they spend or where it goes. They think they’ll need less when they retire, but even with some reduced expenses at first, the cost-of-living continues to increase and your retirement income needs to provide cash flow for more leisure time activity. Don’t forget to put some fun your budget, and a cushion for inflation, especially in healthcare costs, as you age. Work with your financial planner to calculate a retirement income that will work with your lifestyle and budget.

**2. “I don’t know my own net worth.”** Add up the value of all your assets, subtract your liabilities and project their growth to your retirement. Count your home, 401(k) plans, IRAs, savings, and cash value of life insurance. Add up all of your liabilities. Include your credit cards, car loans, mortgage, etc.  $ASSETS - LIABILITIES = NET\ WORTH$

**3. “I don’t need any other savings besides retirement.”** Don’t make the mistake of planning just for the long term. Retirement planning is life planning. You should have a short-term emergency fund of 6 to 12 months’ living expenses now in case of an unexpected job loss or illness. Midterm savings, about 5 to 10 years, should be planned for major expenses like replacing your car or major appliances. Appropriate investment planning will help you to avoid consumer debt or raiding your retirement funds in the future. This pool of cash will also provide you with supplemental retirement income through your retirement years.

**4. “I should have started sooner. It’s too late.”** Start investing for retirement now; it’s never too early, and it’s never too late to improve your savings. I had a client that started working with me when he was 65. He died at age 80. Because of that planning, even as late as it was, his widow has an investment portfolio and a home to live in.

**5. “I’m young. Retirement can wait.”** The best financial asset is time and starting early. Invest while you’re young. Understand the time value of money. The earlier you start the more years you will have to seek to double your base. The law of 72 gives you a formula for how long it takes to double your investments. Take your return and divide by 72. That’s how many years it will take to double your base assuming a fixed rate of return. For example, 72 divided by 10% return = 7.2 years. If you only earn a 4% return it takes 18 years to double your base. If you invest at age 20 and retire at 60 you have 40 years. If you wait until age 40 you only have 20 years. If you haven’t started investing for retirement now, do it.

**6. “I have too many bills to start this now.”** Clear the money-eating termites out of your financial structure. I am amazed that people commonly carry tens of thousands of dollars worth of debt at 18 to 20% in interest, as well as debt for consumer and car loans. Your financial plan needs to address your debt now so you can plan on eliminating your consumer debt as well as reducing the interest rate. Don’t wait until that’s done before you start proactively investing for your retirement. Just think how much further your retirement income will go if you have no debt.

**7. “I don’t know how to begin.”** Work with your financial planner to begin or update your investment plan. If your employer has a 401(k) plan with matching contributions, be sure to at least take advantage of the company match. To pass up matching contributions is to walk away from free retirement money. Your financial planner can tell you about other kinds of savings that have tax advantages and may work for you. How much risk you are willing to take, your age, years to retirement, knowledge, and rate of return will determine your success.

*Heidi Clute is the owner of Clute Wealth Management in Plattsburgh NY, an independent firm that provides strategic financial and investment planning for individuals and small businesses in the Champlain Valley region of New York and Vermont.*