Navy Mutual

Six Common Retirement Planning Mistakes

Having a fun, relaxing, and comfortable standard of living in retirement is one of the reasons you work so hard right now. To fund it, you will need to plan, save, and invest. Most experts suggest that you need 70–80% of your pre-retirement income to live comfortably in retirement. This does not mean that you need 70% of one year's income, but that you need 70% of your pre-retirement income for *each year* that you will be retired. If you retire at 67, you could need 33 years of income – and that's a lot of money.

Ideally, you've been saving up in one form or another for most of your adult life. Taking advantage of employer-sponsored retirement accounts or opening an individual one when you are young can go a long way toward a financially secure retirement. Purchasing **an annuity** may also be a feasible option that could provide you with guaranteed income throughout your retirement. Delaying retirement (if you can) and working a few extra years full time – or even part time – can help stretch your budget for longer as well.

This blog post covers how you can plan for retirement and below you will find some of the more common retirement planning mistakes to avoid.

1. Not starting early enough.

The earlier you start saving for retirement, the longer there is for compounding, or the snowball effect of interest and investment gains, to occur. Time in market plays one of the biggest roles in growing your wealth. Take two people, for example. Person A starts saving $100 a month at age 25. Person B does the same thing but does not start saving until age 35. Assuming an interest rate of 3%, Person A will have approximately $92,000 at age 65, but Person B will only have about $58,000 – and the difference in the

amount they contributed? Only $12,000. Any delay in starting to save, then, can play a significant role in your future finances.

If you are over 50 years old, you can take advantage of catch up contributions to retirement accounts. This means that you can contribute an extra $6,500 to a 401(k) or TSP on top of the standard $19,500 each year and an extra $1,000 to an IRA on top of the $6,000 annual limit. If you have the spare income to make these extra contributions, it is a good idea to do so.

2. Not taking advantage of an employer match.

An employer match, normally a percentage of your contribution, is any amount of money that your employer will contribute to your retirement plan on your behalf. Typically, you must contribute the same percentage or more of your salary in order to earn the entire employer match. This is *free* money. Even if your employer match is only 1%, if you make $50,000 a year, that's $500 in free money that can start earning interest after being invested. Always, if you can afford to do so, contribute the required amount to your retirement plan that allows you to take full advantage of the employer match.

3. Not considering your standard of living.

How do you expect to fill your time in retirement? Are you a gardener or more of a traveler? If you plan to live it up on cruise vacations and jet-setting around the world, you are going to need more money than if you plan to spend your retirement mostly at home doing your hobbies – unless, of course, you have very expensive hobbies.

It is smart to consider what your ideal lifestyle will be after retirement to make an accurate financial plan. If you want to live a life of luxury, you may need closer to 100% of your pre-retirement income each year, but if you are going to dial it back, you may only need 70%. No one wants to run out of money in retirement – you cannot get a loan for retirement living – so you need to plan ahead to avoid having to find additional sources of income or asking for support from your family. Know that overestimating your future needs is not a bad thing.

4. Pulling money from your retirement accounts early.

Whether you want to help your child buy a home or need the money for a renovation of your own, pulling money from your retirement accounts early is not a good idea. Not only do you have to pay a penalty, you may also have to pay yourself back (with interest), and you lose out on the power of compounding interest mentioned earlier.

If you cash out a non-Roth retirement account partially or entirely before you reach age 59 ½, you will have to pay taxes and will likely incur a 10% penalty – and those are paid up front. It is *very* hard to catch up to where you were if you make an early withdrawal. Not only do you lose future earning capabilities on the amount you withdraw, you would never recover any penalties and taxes paid. If you can wait to make withdrawals until retirement age, you can take them without penalty.

Depending on your plan, you may be able to take out a loan from your retirement account. Loans must be repaid within five years, plus interest. With a loan, you will not have to pay any penalties or taxes, but you do still lose out on the earning power of the money you removed from the account until you

repay it. Furthermore, if you leave your employer, you loan will be immediately due and you will be required to pay it back in full. If you do not do so within the time frame, it becomes a taxable distribution and you will owe taxes and a 10% penalty if you are under 59 ½ years old.

5. Ignoring long-term care and medical care.

As you age, it becomes increasingly important to stay healthy and have a plan to cover unexpected medical expenses. Purchasing *both* long-term care coverage (either a long-term care insurance policy or a life insurance policy with a long-term care feature) and health insurance is the best way to make sure that you are covered in any event.

When it comes to long-term care, you buy insurance coverage so that it's there if you need it. **Long-term care** – think nursing homes, assisted living facilities, home health aides – is expensive, and the majority of Americans will need care at some point in their lives. Health insurance generally does not cover long-term care, and instead of asking your family members to help or depleting your retirement funds entirely, purchasing insurance can protect you financially should the need for care arise. Some **life insurance plans** have a long-term care or chronic illness feature that allows you to access your death benefit early should you need to cover associated costs.

Furthermore, most medical care plans through your employer end with retirement, so you cannot rely on having the same health insurance coverage that you have always had. Medicare is an option for older Americans (eligibility starts at 65), but it's unlikely to cover all of your medical costs. In all likelihood, you will need a Medicare supplement plan or a Medicare Advantage plan to ensure that you have full coverage when it comes to your health. This is going to cost you, so make sure that it's included in your budget for the duration of retirement.

6. Not considering tax implications.

When it comes to retirement accounts, you can typically invest in a Roth account or a traditional account. Any money you deposit into a Roth account is taxed upfront, and it grows tax-free, meaning that when you take out distributions in retirement, you will not be taxed on them. Traditional accounts are the opposite. Money is invested tax-free, but when you get distributions in retirement, they count toward your taxable income and you will be required to pay taxes on them. Furthermore, if you receive Social Security benefits and your total income is more than $25,000 (single) or $32,000 (married), you will be required to pay taxes on at least 50% of those benefits as well. Paying attention now to how taxes will affect you in the future can help you create a plan (and save) for any tax bills that may need to be paid during retirement.

There are many mistakes that can be made when it comes to planning for retirement, but the good news is, they can be avoided. Your retirement plan is individual to you, whether you started saving when you were young or need to take advantage of catch-up contributions. Any amount saved (or not spent in the form of a withdrawal or retirement account loan) is money that will continue to grow in the future.

Navy Mutual is here to help. To schedule an appointment with a representative, **click here**, or email us at **counselor@navymutual.org**.