Top Ten Financial Mistakes After Retirement

https://www.thefinancialword.com/9-worst-mistakes-people-make-after-retirement/

Making mistakes with money is a common learning experience. When you're already retired, however, the results can be more serious. It's much easier to recover from financial mistakes when you are younger, because you still have time to earn more money.

Retirees depend on their nest egg. Their ability to replace savings changes, because they are no longer generating income from a job. Luckily, you can learn from the experience of others and avoid some of the more common mistakes without having to suffer through these missteps.

The top ten financial mistakes most people make after retirement are:

1) Not Changing Lifestyle After Retirement

Among the biggest mistakes retirees make is not adjusting their expenses to their new budget in retirement. Those who have worked for many years need to realize that dining out, clothing and entertainment expenses should be reduced because they are no longer earning the same amount of money as they were while working.

Many retirees also tend to forget that healthcare and long-term care costs usually come into play as a person ages. With some appropriate adjustments to your budgeting and proper planning, you can make sure you are prepared for any possible event.

2) Failing to Move to More Conservative Investments

After retiring, you can't afford large negative swings in your savings. Financial advisors often recommend a long-term strategy of leaving money in the market regardless of the ups and downs. That's because over time, the market, while very volatile at times, has historically ended up rising in the long term. When you retire however, you have to think more short-term as you will need to access the cash. It's still probably smart to keep some money in more aggressive growth investments, but not nearly at the level you did when you were younger. You might not make the larger gains in net worth, but you will be protected from drastic losses.

3) Applying for Social Security Too Early

Just because you are already eligible to apply for Social Security at 62 does not mean you should. If you start taking benefits at age 62 will get you about 25% less than what you would get on your full retirement age of 66. You will also get 32% less than if you wait until age 70.

If you have the means to pay your bills, try to delay your application for retirement benefits for a few years more. The benefit increase is maxed out by 70 years old, so that's the target age you should shoot for to retire.

4) Spending Too Much Money Too Soon

Before finalizing your retirement, you must take into consideration that you will only be living on a fixed amount of money. Often the amount of retirement savings looks incredibly large, but retirees must keep in mind that money will have to last a very long time – hopefully a very, very long time! Avoid the temptation to spend large chunks of that nest egg early in retirement. The temptation to spend your money can be tempting, but discipline is vital. Depleting your money beyond the interest that it earns will hurt the principal and would leave you with nothing after just a few years.

5) Failure To Be Aware Of Frauds and Scams

Unfortunately, retirees are the most targeted group for scams. Be sure to consult an advisor prior to making any investment or laying out a large amount of cash on anything. Scammers will prey upon your desire to increase your savings.

Even if you are not retired or about to retire, always keep a certain level of skepticism when it comes to the investments being presented to you. Do your research first: ask about it and search for it online. You might just find out that this whole system is just an elaborate way for people to get money out of you.

6) Cashing Out Pension Too Soon

Retirees can be swayed by the promise of a higher return once they try to put their money on a particular investment vehicle, thus pushing them to cash out their entire pension. This is not always the best move to make: investments are unpredictable and it can be difficult to look for one that could pay just as much, or even more, as the pension over the long term.

Remember that cashing out on a pension early may come at a big cost. Be cautious and weigh your options well. The longer your life, the more you will lose from cashing out your pension early.

7) Paying more Taxes than necessary

Having multiple retirement accounts may sound ideal, but remember that each retirement account is taxed differently. If you do not find a way to take out your money from your assets and your accounts, you could end up paying more taxes that you actually have to.

Finding the most cost-efficient way of being taxed during retirement is a complicated manner, so you will want to explore your different options.

8) Supporting Adult Working Children

Family is often hard to refuse, but you have to remember that your savings are fixed and your ability to earn more money is severely reduced in retirement. Your adult children are much better equipped than you to recover from financial difficulties. Unless you are certain you have the money to spare, avoid giving large monetary gifts or loans after retirement.

Remember that you will no longer be earning the same money as you did when you still had a job. It is expected that your expenses will have already gone down by this time. This means that your retirement income could only be enough to cover your personal expenses.

9) Being House-Rich, but Cash-Poor

People often pay for their mortgage for most of their life and, by the time they retire, end up with a lot of equity in the home and with little cash left. While houses appreciate in value, but the ongoing costs of taxes, utilities, services, repairs and maintenance can be too much for a retiree to handle. By the time you retire, adult children have probably moved out of the house. If so, consider the benefits of downsizing by selling your house and moving to a smaller home that is more affordable. You could also invest the remaining money on more predictable income in order to support your new retirement lifestyle.

10) Not Staying Active Socially and Physically

Two of worst things you can do after retiring is to be socially isolated and physically inactive. It’s important to maintain social connections and frequently enjoy the company of friends and family, or join social groups and activities. The mind is like a muscle – if it isn’t exercised, its abilities will fade. Reading books, solving puzzles and just simply engaging in conversation are all great ways to keep the brain sharp and functioning well into later life.

Becoming reclusive and spending a lot of time in front of the television should not monopolize your time. Keeping physically active will not only help keep you mentally sharp and physically healthy, but will also elevate your mood and help you be happy well into your golden years.