PERSONAL FINANCE

AVOID MISTAKES THAT RETIREES MAKE REPEATEDLY

DAVE CARPENTER
ASSOCIATED PRESS

Despite the best of intentions, retirees tend to make the same money mistakes over and over and over again. Eventually you're going to run into trouble if you don't break the pattern of financial neglect. Here are seven common retiree mistakes and how to avoid them:

1. Being conservative with money

Treasury bonds, certificates of deposit and other savings instruments with scant yields can give retirees a false sense of security, providing soothing protection from dizzying stock market volatility. But they don't provide even a fighting chance to keep up with inflation in the long term.

Fix: A rough guideline for asset allocation is to own a percentage in stocks equal to 110 or 120 minus your age. In other words, a 70-year-old would have 40 or 50 percent of her investment portfolio in stocks.

2. Putting off planning

Failing to create a financial or estate plan isn't just a matter of missing out on investment opportunities or tax advantages. Without guidance or a plan, investors can harm their finances through unwise decisions.

Fix: Prepare financial and estate plans and discuss future aging-related scenarios with an adviser.

3. Bailing out kids

It's possible to be too selfless and charitable in retirement if it means putting your own financial security at risk. Some seniors contribute to down payments for their children's first homes even though they're struggling to fund their own retirements. Others stretch to pay for the college expenses of a child or grandchild.

Fix: Put your financial needs in retirement first. Make sure you know how much you can safely spend from your savings each year.

4. Paying too much in taxes

Retirees usually are in lower tax brackets than in their working years. But they often fail to make adjustments that could lower their taxes. Also, seniors who do regular volunteer work tend to leave tax deductions for mileage and out-of-pocket costs on the table.

Fix: Have a plan to minimize the tax impact of withdrawals, keep your receipts for volunteering costs, don't miss out on any deductions.

5. Using advice from friends.

Many seniors living on fixed income wouldn't consider paying a planner to help organize their finances, but routinely act on guidance from their friends and family.

Fix: Validate any advice from friends and family with objective materials from somewhere else. If not an adviser, that means at least credible online resources or organizations, notes Jean Setzfand, director of financial security for AARP.

6. Ignoring health care costs.

A typical 65-year-old couple retiring needs roughly $230,000 to cover medical expenses in retirement, excluding long-term care, according to Fidelity Investments. But surveys repeatedly show that most people don't have a plan to cover those costs.

Fix: Buy Medigap supplemental insurance that fills in benefit gaps in traditional Medicare. And strongly consider buying long-term care insurance, which pays for in-home care and nursing home care.

7. Underestimating life expectancy.

Most seniors don't have enough savings or income for a retirement that could last 30 years or more.

Fix: Financial preparation for a long life starts during your work career with the creation of a financial plan that will provide income deep into retirement. Failing that, working past your anticipated retirement age, even part-time, will allow your existing savings additional time to grow.