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- While 12% of those surveyed were highly anxious about retirement planning , 29% experienced moderate levels of anxiety over their retirement plans
- 78% expressed either extreme or some concern that they were likely to not have sufficient savings for retirement
- And while 10% said they had saved less than $5,000 for their retirement, a staggering 21% said they had nothing saved at all

There are many milestone decisions that you make in life. You decide on which college/university you'll attend. You ponder over your career choices. When it's time to venture into a profession, you'll carefully weigh which employer's offer you should accept (if you are fortunate to receive multiple job offers!).

Retirement is yet another one of those life's milestones that most of us eventually come across. And just like other critical events in our lives, we need to plan our retirement very carefully. Why? Well, because there's a lot riding on it!

If you don't get it right:

- You may not have accumulated enough to retire on, and may therefore need to work longer than you had expected (beyond 65 or even 75+)
- You may retire as planned, but you could run out of money part way into retirement, and that may mean you have difficult choices to make: Borrow money from friends, family or financial institutions? Sell your home or possessions? Go back to work? None of these are very palatable choices indeed
- You may not live out the "dream" retirement you wanted. Once again, you'll travel less; curtail a lot of the leisure activities you had planned; tighten your belt and skimp on expenditure you thought your plans could sustain
- You may even not have much of a legacy to leave your heirs – something most retirees hope they can do, so their future generations can have a smoother ride along life's bumpy road

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## RETIREMENT PLANNING DONE RIGHT

Planning for retirement can be a double-edged sword. If you don't plan things well, and well ahead of "R-day" (Retirement Day), you could literally become ill from the resulting stress of an approaching retirement. On the other hand, retirement planning done right takes a lot of time, thought and effort, and many individuals shy away from it because of that reason. However, when done right, it can offer you peace of mind as you sail into your golden years.

So, what's involved in making sure your retirement plans aren't beset with numerous pitfalls? The answer: Make sure you follow a tried and tested planning process. And that process, at a very high-level, involves four crucial steps:

- Assess where you are at today, in terms of your savings, investments and other life's priorities

- Decide what retirement should look like, and what your post-retirement goals are (Travelling, Enjoying the days with family and friends, Volunteering, Establishing a second career, Charitable giving)

- Map out how to get there given where you are at today

- Periodically (ideally once every year), review your plans to see whether you are on track. If you find that you are deviating from the plan, take corrective action immediately to get you back on track

It's really that simple!

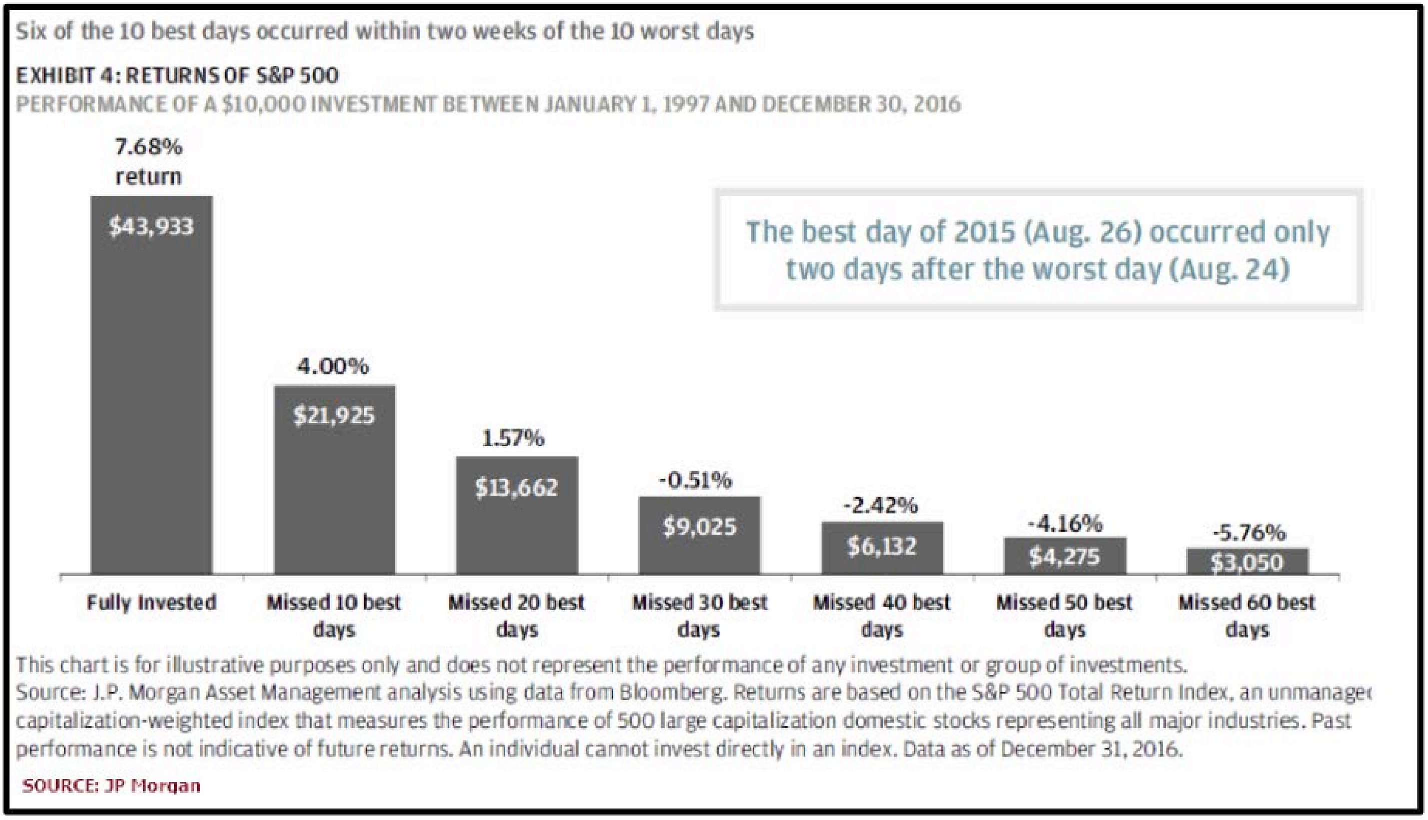
Some individuals prefer to go it alone, following a Do-It-Yourself (DIY) approach to retirement planning. However, for the most part, it's something that's best done with professional assistance, mainly because there are so many pitfalls waiting around the corner, that overlooking even one of them might derail your entire plan!

## 10 RETIREMENT PLANNING PITFALLS TO BE AWARE OF

So, given that backdrop, lets take a closer look at some of the common retirement planning pitfalls that you should be aware of:

**1. Starting too late:** We all (especially millennials starting out their work lives) think retirement planning is meant to start when we are closer to retirement. Wrong!

soon as you start working – or shortly thereafter.  Why? Because that'll give you many more years (compared to starting your planning efforts 3 or 5 years prior to retirement) to define and refine your plan to perfection, and for your investments to work to support your retirement goals.




As illustrated by this chart from JP Morgan , the earlier you start planning and implementing (investing) your plans, the more "good days" your investments will have to benefit from market gains. And if you start planning and investing earlier, the more time you'll have to recoup losses that your investments will inevitably suffer along the way.

**2 - Not putting enough aside:** The common thought is: I'll put more aside into my ROTH IRA or 401 (k) later – once I get my raise; or after my inheritance comes through; or if I win the lottery! Bad idea!

One of the biggest mistakes that you can make is to defer saving the maximum amount possible at your earliest. This is especially true for 401(k) employer-matched accounts, where the more you save the more "free" money you'll earn through employer matching.  Ideally, aim to put aside 15%-20% of your after-tax income into retirement savings.

The IRS also allows you to put more into your 401(k) and 403(b) accounts once you pass the age of 50 . So, if you haven't been putting enough aside towards your retirement so far, then you might still be able to catch-up to your plan after all!

**3 - Not saving regularly**: This is a corollary to the previous point as well. Even if it's just a small amount, you need to save it regularly. Why?

| Rate of return | | | | 2.50% | Rate of return | | | | 2.50% |
|---|---|---|---|---|---|---|---|---|---|
| Year | Principle | Regular Savings | Interest | Closing Balance | Year | Principle | Regular Savings | Interest | Closing Balance |
| 1 | $10,000.00 | $0.00 | $250.00 | $10,250.00 | 1 | $10,000.00 | $500.00 | $262.50 | $10,762.50 |
| 2 | $10,250.00 | $0.00 | $256.25 | $10,506.25 | 2 | $10,762.50 | $500.00 | $269.06 | $11,531.56 |
| 3 | $10,506.25 | $0.00 | $262.66 | $10,768.91 | 3 | $11,531.56 | $500.00 | $288.29 | $12,319.85 |
| 4 | $10,768.91 | $0.00 | $269.22 | $11,038.13 | 4 | $12,319.85 | $500.00 | $308.00 | $13,127.85 |
| 5 | $11,038.13 | $0.00 | $275.95 | $11,314.08 | 5 | $13,127.85 | $500.00 | $328.20 | $13,956.04 |
| 6 | $11,314.08 | $0.00 | $282.85 | $11,596.93 | 6 | $13,956.04 | $500.00 | $348.90 | $14,804.95 |
| 7 | $11,596.93 | $0.00 | $289.92 | $11,886.86 | 7 | $14,804.95 | $500.00 | $370.12 | $15,675.07 |
| 8 | $11,886.86 | $0.00 | $297.17 | $12,184.03 | 8 | $15,675.07 | $500.00 | $391.88 | $16,566.95 |
| 9 | $12,184.03 | $0.00 | $304.60 | $12,488.63 | 9 | $16,566.95 | $500.00 | $414.17 | $17,481.12 |
| 10 | $12,488.63 | $0.00 | $312.22 | $12,800.85 | 10 | $17,481.12 | $500.00 | $437.03 | $18,418.15 |
| Without regular savings | | | | | With $500 per year of regular savings | | | | |

One word: Compounding! Albert Einstein once called the power of compounding the greatest force on earth – and rightly so. In the graphic above, you can see how $10,000 can be turned into $12,800 in 10-years, without any additional savings in-between; or into $18,418 in that same timeframe, if you add just $500 additional savings each year. That's a difference of nearly 44% – thanks to the magic of regular saving and compounding.

**4 - Not maintaining a budget PRIOR to retirement**: According to the Bureau of Labor Statistics, the average American household receives less than $17,000 a year in social assistance, yet they spend over $40,000 annually in retirement . So, how would you know what you are likely to spend during retirement, or whether your retirement inflows will more than match your outflows? Your monthly/annual household budget can help you.

This simple pre-retirement tool (the monthly budget) can help you ensure you are better prepared to create a realistic retirement plan – once it's time to do so. How? A pre-retirement budget helps you understand what you are likely to spend (or not need) in retirement, and whether you are likely to have a cash shortfall as a result of such spending. Without that information to go by, your retirement plan will be rife with conjecture and speculation!

**5 - Not accounting for realistic post-retirement expenses**: Many people go into retirement not really knowing what they'll spend (monthly/annually), or where, during their golden years. Consequently, their retirement plans are a disaster – based on unrealistic expenses they may or may not encounter in retirement.

| Pre/Post Retirement Expenditure |
|---|
| Rent/Mortgage |
| Utilities |
| Groceries/Toiletries |
| Transportation |
| Car Insurance |
| Travel |
| Dining out |
| Wardrobe/Personal grooming |
| Professional Training/Education |

In the above list, your post-retirement spending on work-related clothing, Training or Transportation (from/to work and back) might be entirely eliminated, or may not be as high as they would in your pre-retirement years. Conversely, you might have more time to Travel (at least initially – more on this shortly!) during retirement, than you did pre-retirement. Also, if you down-sized in retirement, your Rent/Mortgage and Utility payments might be lower.

So, be realistic in your plans: Not planning for sufficient monthly/annual expenses, or putting too high a number in your plan for them, can both have undesirable effects on the quality of your retirement.

In one case (not setting aside enough) you might run out of money faster than you'd expected. In the other instance (setting your retirement expenses much higher than they realistically should be), you may unnecessarily skimp on some of life's simple pleasures – like dining out once in a while – fearing you'll run out of money.

One of the biggest factors that can derail your retirement plans is health care costs – which increase over time as you get older. A survey by Employee Benefit Research Institute  reported that only 1 in 4 working Americans, and 4 out of 10 retirees, actually know what health care will cost them in retirement. How do you plan for what you don't know?

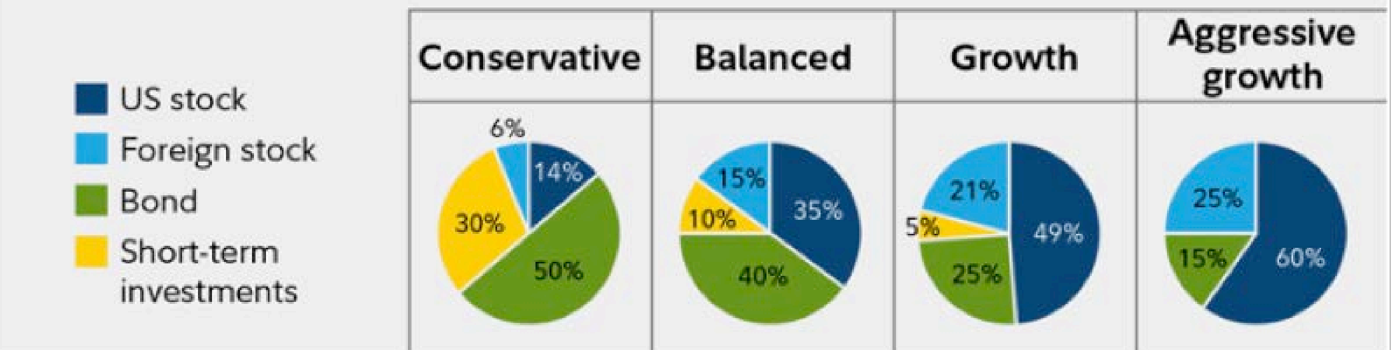
So be mindful about such costs too.

**6 - Not factoring post-retirement lifestyle changes into the plan**: Most people THINK they'll live large and paint the town after retirement – and so, they plan accordingly. But reality is starkly different. A lot of lifestyle changes occur once you retire: Mobility. Health. Changing tastes. Differing priorities etc. You might think you'll travel until you are 100 – but your changing lifestyle might not allow for that to happen.

When planning your retirement therefore, be mindful of these lifestyle changes, and account for them in your plans.

**7 - Making inappropriate investment choices**: It's true that, since you've worked hard to build your nest egg, you need to invest carefully. "Carefully" however varies in scale from being ultra-conservative to overly aggressive. Investing 98% of your retirement savings in safe (low-yielding) vehicles throughout your accumulation phase isn't wise. Nor is it a good idea to stake it all on Bitcoin or Derivatives and Options.

**Find an investment mix with the right amount of growth potential and risk for you**




| Annual return % | Conservative | Balanced | Growth | Aggressive growth |
|---|---|---|---|---|
| Average annual return | 5.96% | 7.91% | 8.88% | 9.55% |
| Best 12-month return | 31.06% | 76.57% | 109.55% | 136.07% |
| Worst 12-month return | -17.67% | -40.64% | -52.92% | -60.78% |
| Best 20-year return (annualized) | 10.98% | 13.83% | 15.34% | 16.49% |
| Worst 20-year return (annualized) | 2.92% | 3.43% | 3.10% | 2.66% |

SOURCE: Fidelity.Com

Source: Strategic Advisers and Morningstar/Ibbotson Associates. Hypothetical value of assets held in untaxed portfolios invested in US stocks, bonds, or short-term investments. Stocks, bonds, and short-term investments are represented by total returns of the S&P 500 Index from 1/1926 – 1/1987; Dow Jones Total Market from 2/1987 – 12/2017, US Intermediate -Term Government Bond Index from 1/1926 – 1/1976; Barclays Aggregate Bond from 2/1976 – 12/2017, and 30-Day T-Bills. Inflation is represented by the Consumer Price Index. Numbers are rounded for simplicity. Past performance is no guarantee of future results.

As indicated by the above graphics from Fidelity Investments , your retirement plan must be grounded on a careful balance of age-appropriate and risk-moderated investments. And the best person to advise you on those is your financial advisor.

**8 - Not accounting for inflation and taxes**: These "hidden wealth eaters" are often ignored (or overlooked) when preparing retirement plans. Overly cautious, or excessively liberal, inflation and tax estimates can both ruin your retirement plans.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Rate of return | | | | | | | 2.50% |
| Inflation | | | | | | | 2.00% |
| Tax Rate | | | | | | | 26.50% |
| Year | Principle | Regular Savings | Interest | Tax on Interest | Inflation erosion of Interest | Total erosion of savings | Closing Balance |
| 1 | $10,000.00 | $500.00 | $262.50 | -$69.56 | -$5.25 | -$74.81 | $10,687.69 |
| 2 | $10,687.69 | $500.00 | $279.69 | -$74.12 | -$5.59 | -$79.71 | $11,387.67 |
| 3 | $11,387.67 | $500.00 | $297.19 | -$78.76 | -$5.94 | -$84.70 | $12,100.16 |
| 4 | $12,100.16 | $500.00 | $315.00 | -$83.48 | -$6.30 | -$89.78 | $12,825.39 |
| 5 | $12,825.39 | $500.00 | $333.13 | -$88.28 | -$6.66 | -$94.94 | $13,563.58 |
| 6 | $13,563.58 | $500.00 | $351.59 | -$93.17 | -$7.03 | -$100.20 | $14,314.97 |
| 7 | $14,314.97 | $500.00 | $370.37 | -$98.15 | -$7.41 | -$105.56 | $15,079.78 |
| 8 | $15,079.78 | $500.00 | $389.49 | -$103.22 | -$7.79 | -$111.01 | $15,858.27 |
| 9 | $15,858.27 | $500.00 | $408.96 | -$108.37 | -$8.18 | -$116.55 | $16,650.68 |
| 10 | $16,650.68 | $500.00 | $428.77 | -$113.62 | -$8.58 | -$122.20 | $17,457.24 |
| With $500 per year of regular savings and Inflation and Taxes | | | | | | | |

Let's revisit our retirement plans based on our earlier example – but this time lets factor in a 2% inflation rate, and a post-retirement marginal tax rate of 26.5% (just an assumption for illustrative purposes). If you are (happily!) oblivious of the "hidden wealth eaters", you'll assume your retirement nest egg will grow to $18,414 in 10-years (see pitfall #3 for details) – and you'll plan accordingly. However, your plans would not be grounded in reality, as your retirement savings will have been eroded by taxes and inflation*.

Conversely, it would be unwise to build your retirement plans assuming you'll be in a 54% tax rate, with inflation running rampant at 10%! Once again, a qualified Financial advisor will be able to guide you in making realistic assumptions about these pitfalls to your retirement plans.

*Note: In the above example, for simplicity, we've only illustrated the impact of inflation on Interest earned. In the real-world, this "wealth eater" will also devour a little of your principle each year.

**9 - Under/overestimating social security**: Many of us forget that Uncle Sam has something "special" planned for us once we retire – Social Security and other retirement benefits. Not factoring government retirement benefits (Medicare A, B, C, D, Social Security Delayed Retirement Credits, Supplementary Security Income (SSI) etc.) appropriately into the plan can significantly impact those plans.
For instance, if you don't have sufficient retirement savings of your own, then you might still be able to plan for a comfortable retirement using social security benefits owed to you. One planning strategy might be to consider waiting until after you are 67 to tap into government retirement/social benefits. You could get up to 8% more in benefits annually if you did so ! How many "ultra safe" investments can you think of that are guaranteed to deliver you an annual 8% return on investment today?
But there is a flip-side to making government benefits part of your retirement planning strategy – the over-reliance on them. If government benefits are a cornerstone of your retirement plan, be mindful that (depending on which state you retire in) there may be tax implications that could dampen plans for your golden years!

And what happens to your retirement plans if there is a drastic change to Social Security legislation, as was passed by Congress in 1983, raising the age of full retirement benefits from 65? Today (2018), if you are age 62, you need to wait until you are 66 years and 4-months old before you are eligible for full retirement benefits.

While you really can't plan ahead for such eventualities, your retirement plans should include some "cushion", if you are entirely depending on social benefits to see you through in retirement.

**10 - Not integrating employer retirement benefits into your overall retirement planning process**: Most of us aren't fortunate enough to have employer-sponsored retirement plans/benefits. And those of us that do, don't often stop to consider the impact these benefits can have on our retirement plans.

When planning to meet your "retirement numbers" (How much to save during your accumulation phase; How much will your investments need to generate in retirement), remember to factor into that equation how much your employer-sponsored plans will contribute to those numbers.

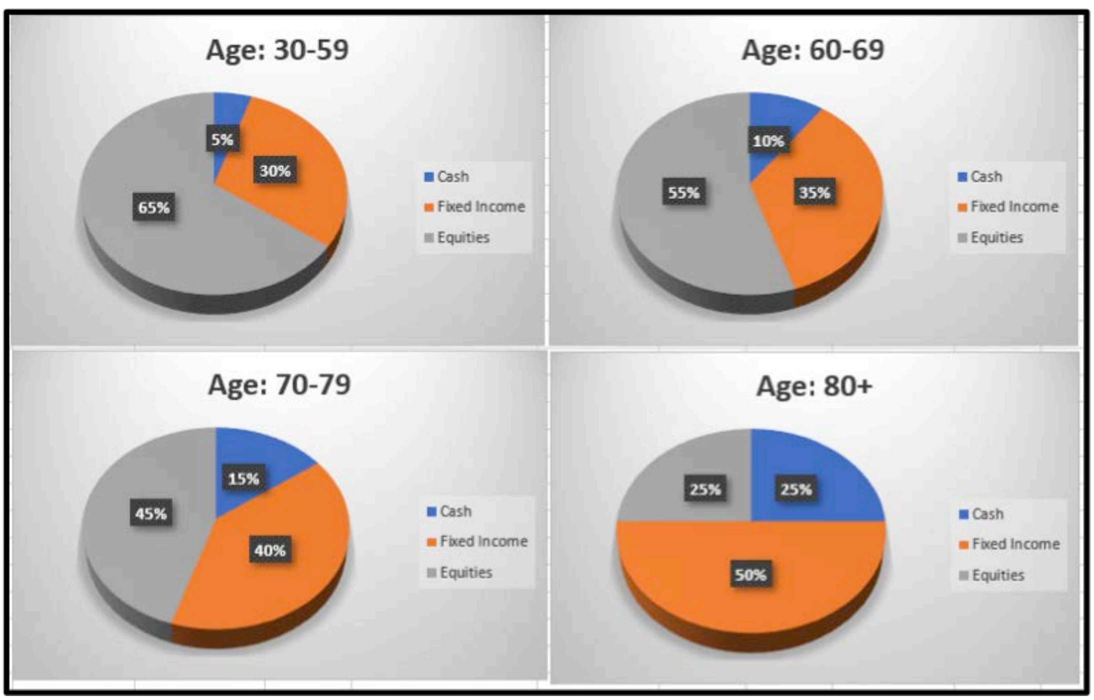
If it turns out that your employer-sponsored retirement plans, coupled with your government entitlements, will see you through a comfortable retirement, then you could potentially spend more of your hard-earned money now, prior to retirement. Why not have some fun while you are still employed, especially if your work pension/benefit plans (Simple IRA/SEP IRA) will supplement your own retirement plans. However, if you don't plan it properly, you'll be unaware of the benefits laying in wait for you once you retire.

## AVOIDING COMMON RETIREMENT PLANNING PITFALLS

As we've discussed above, not planning for retirement, or doing it in a haphazard way, could lead you towards many pitfalls that will ruin your golden years. The best way to avoid these pitfalls is to understand that you need to plan for them very carefully.
And the first step in ensuring you have a sound understanding of the retirement planning process, and its associated challenges and pitfalls, is to educate yourself on the subject. While there are plenty of free online resources available to you, most qualified Financial Planners provide such education to their clients for free.

Here are some other ways to proactively steer away from some/all of the pitfalls that we've discussed earlier:

- Recognize that planning is important
- Realize that the earlier you start planning the more likely you'll be able to avoid some of these retirement traps
- Involve your spouse/partner in your plans. Simple things, like filing a joint tax return, can have huge impact on your retirement plans
- Do your best to enter retirement debt-free – and that includes paying off your mortgage, and settling any major credit card payments or other high-interest debt
- Convert into less-riskier investments 3 to 5-years prior to retirement. The old rule of thumb of using "100 minus your age" to determine investment mixes might not always work well.



As you continue to review and refine your retirement plans over the years, you should work with your Investment Advisor to determine your optimal asset-mix

- Review, revise and revamp the plan frequently (at least annually) to make sure you constantly scan for these (and/or other) pitfalls

- Don't forget to plan for "after retirement" – estate and legacy planning

- And last…but not least: Don't hesitate to seek professional assistance

Nothing can be worse than having to worry about how you'll see your golden years through – once you retire. The time, however, to plan for that is BEFORE you enter "the best years of your life". Retirement planning done right will not only steer you away from these pitfalls, but will enable you to enjoy a happy and stress-free retirement.

Moreover, if you have knowledgeable professionals to help you plan for retirement, you could even lead a very happy and anxiety-free pre-retirement, enjoying your hard-earned wealth along the way. Instead, not having a plan in place, or doing a retirement plan wrong, could leave you fretting over whether you'll have enough on R-Day, when it comes time to kick off your shoes and relax!

Here's Wishing you a Stress-Free and Happy Retirement!

NOTE: All charts have been taken graphics from publicly-available information

i https://news.northwesternmutual.com/download/Money+and+Emotions+deck+.pdf

ii https://www.cnbc.com/2018/05/11/how-many-americans-have-no-retirement-savings.html

iii https://news.northwesternmutual.com/download/Money+and+Emotions+deck+.pdf

iv https://www.cnbc.com/2018/05/11/how-many-americans-have-no-retirement-savings.html

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vi https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-catch-up-contributions

vii https://money.cnn.com/2018/03/16/retirement/average-retirement-savings/index.html

viii https://www.ebri.org/pdf/surveys/rcs/2018/2018RCS_Report_V5MGAchecked.pdf

ix https://www.fidelity.com/viewpoints/retirement/retirement-income-strategies

x https://www.cbsnews.com/news/could-you-get-by-on-the-average-americans-retirement-income/