Five Big In-Retirement Money Mistakes — and How To Avoid Them

Chances are, planning for retirement is one of the most important steps—series of steps, really—that you'll undertake in your life. Unfortunately, we don't always put enough focus on making thoughtful decisions during our retirements.

Maybe we overlook something important. Perhaps we veer off course from one or more of our strategies. As a result, much of our hard work and planning during the pre-retirement period of our life can unravel once we enter our golden years—which, in turn, may put our retirement dreams and even our fundamental financial security in danger.

Whether you're retired or still on the path there, it's a good idea to learn some moves you can make to avoid big in-retirement financial errors. Here's a closer look at some of those key mistakes—and how to sidestep them.

Mistake: Overspending. Too often, even very affluent people with significant wealth find themselves overspending to the point where they're in some amount of financial discomfort. One reason: Some high earners can spend as they like during their careers without problems. So they don't create budgets or watch their cash flow the way that others may need to do. The result: Once their incomes go away or are reduced, they lack clarity on the amount of money they need for the long haul.

The other main driver is simply getting carried away by "living it up" during retirement (especially in the initial years, when the thrill of newfound freedom can feel intoxicating).

Advice: Evaluate your income needs accurately going into retirement—and modify plans as necessary throughout your golden years. In particular, pay attention to cash flow numbers and how they fluctuate. That analysis should be a foundational part of your overall wealth management plan, along with other regular check-ins that enable you to see where you're at.

Mistake: Avoiding "money talks" with family. Too often, the heads of families don't discuss anything to do with finances with their heirs. As a result, family infighting can occur down the road when assets transfer (or don't transfer, as the case may be) to the kids and other relatives. In the worst-case scenarios, family wealth is destroyed and family relationships are torn apart.

One idea: Work with your family members (and trusted financial professionals) to create a formal family mission statement that spells out your family's values and how you use your finances to support those values. Such clarity can help heirs (and others) understand why family money is being allocated and passed on in specific ways.

Steven C. Jackson, CWS®, CPFA
Senior Vice President, Financial Advisor

Steven C. Jackson, Jr., CFP®
Senior Vice President, Branch Manager, Financial Advisor

Chalyda Dumayas, FPQP®, CWP
Senior Registered Financial Planning Associate

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JACKSON FINANCIAL ADVISORS

Members of D.A. Davidson & Co. member SIPC

301 N. Lake Ave., Suite 800 | Pasadena, CA 91101 | (626) 449-0330 | sjackson@dadco.com | dadavidson.com | JacksonFinancialAdvisors.com

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Mistake: Making missteps with Social Security. Even for those with significant financial assets, Social Security payments can be an important component of retirement income. So it makes sense to avoid mistakes that could erode what Social Security might offer you.

It's generally well known that claiming benefits too early can come back to bite you. Other, somewhat lesser-known potential mistakes include:

- **Waiting too long to claim.** Some people should at least consider claiming on the early side. They include (but aren't limited to) single people in poor health who are unlikely to live several more decades, and married couples who are both in extremely poor health.
- **Avoiding work due to earnings limits.** If you claim Social Security before January 1 of the year in which you reach full retirement age, and earn above a certain threshold, your benefit is reduced by $1 for every $2 of excess earnings. But rather than saying no to paid work because of that fact, it can be smarter to keep generating income. The reason: The government will adjust your benefit upward once you reach full retirement age—meaning you may very well recoup the money you lost.

Mistake: Using the "wrong" withdrawal strategy for income. The "right" strategy will vary depending on an individual's goals and other factors, of course. That said, it's easy to use an approach that is inefficient or suboptimal in some way. A withdrawal strategy should factor in (among other things) health and life expectancy, income timing needs, and how various accounts may be taxed if you pull from them.

Advice: Don't assume a "rule of thumb" approach—such as the 4 percent per year withdrawal rule—is automatically right for you simply because it's relatively easy to understand. However, don't discount it out of hand because it seems too simple and straightforward. Consider various options and run the numbers.

Mistake: Making investing your new part-time hobby. Faced with lots of extra time, some retirees decide it's a great time to "play the markets." Often this occurs among self-made individuals such as former entrepreneurs, who might assume that they can easily apply their business success skills to investing and achieve similar results without breaking a sweat.

That overconfidence can potentially lead to classic investment errors—investing too aggressively, chasing hot tips, over-concentrating assets in a single company or sector, excessive trading that cuts into returns or boosts taxes owed, and others.

Best bet: Don't turn your wealth into a new game or hobby. Get the right team of experts around you who can guide you.

Conclusion

There are many ways to potentially jeopardize your financial health in retirement—and there may be less time and fewer ways for you to recover from big financial mistakes once you're out of the workforce. That's why it's so important to take steps aimed at helping you continue to make informed decisions about your wealth, even as you look to enjoy life to the fullest.

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