Retirement Planning Weak Spots

They are all too common.

Provided by Elaine M. Shanley, CFP®

Many households think they are planning carefully for retirement. In many cases, they are not. Weak spots in their retirement planning and saving may go unnoticed.

Couples should recognize that they may face major medical expenses. Each year, Fidelity Investments estimates how much a pair of newly retired 65-year-olds will spend on health care throughout the rest of their lives. Fidelity says that on average, retiring men will need $133,000 to fund health care in retirement; retiring women, $147,000. Even baby boomers in outstanding health should accept the possibility that serious health conditions could increase their out-of-pocket hospital, prescription drug, and eldercare costs.[1]

Retirement savers will want to diversify their invested assets. An analysis from StreetAuthority, a financial research and publishing company, demonstrates how dramatic the shift has been for some investors. A hypothetical portfolio split evenly between equities and fixed-income investments at the end of February 2009 would have been weighted 74/26 in favor of equities exactly nine years later. If a bear market arrives, that lack of diversification could spell trouble. Another weak spot: some investors just fall in love with two or three companies. If they only buy shares in those companies, their retirement prospects will become tied up with the future of those firms, which could lead to problems.[2]

The usefulness of dollar cost averaging. Recurring, automatic monthly contributions to retirement accounts allow a pre-retiree to save consistently for them. Contrast that with pre-retirees who never arrange monthly salary deferrals into their retirement accounts; they hunt for investment money each month, and it becomes an item on their to-do list. Who knows whether it will be crossed off regularly or not?

Big debts can put a drag on a retirement saving strategy. Some financial professionals urge their clients to retire debt free or with as little debt as possible; others think carrying a mortgage in retirement can work out. This difference of opinion aside, the less debt a pre-retiree has, the more cash he or she can free up for investment or put into savings.

The biggest weakness is not having a plan at all. How many households save for retirement with a number in mind – the dollar figure their retirement fund needs to meet? How many approach their retirements with an idea of the income they will require? A conversation with a financial professional may help to clear up any ambiguities – and lead to a strategy that puts new focus into retirement planning.

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Citations.

1 - marketwatch.com/story/youre-probably-going-to-live-longer-what-if-you-cant-afford-it-2018-04-23 [4/23/18]
2 - nasdaq.com/article/how-to-prepare-your-income-portfolio-for-volatility-cm939499 [3/26/18]