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Common mistakes among retiring baby boomers



John Schooler

As baby boomers near their retirement years — the first boomer turns 60 on Jan. 1 — they're discovering what previous retirees have been complaining about for years.

There is a lot of information on how to plan for retirement but not nearly enough on how to plan retirement itself. The stakes are perilously high. Errors made in the years surrounding retirement can haunt you for life. You can end up with less money, or

Less retirement, than you'd planned. Or you can face big tax bills that could have been avoided had you known better.

Here, according to retirement income experts are some of the most common mistakes and how to avoid them.

Underestimating your life expectancy

Financial planners used to routinely create retirement plans that stopped at age 85, because the chances seemed pretty good their clients would be dead by then. The average life expectancy at age 65 is 10.3 years for men, 12.4 years for women. But averages don't tell the tale. You may be in better health than the average Joe or Jane, take better care of yourself or have better genes. We at Western Financial Advisors use 90 as the ending date when doing financial planning for clients. We are considering raising the number to 95 or 100 because of improving health and longevity of the population.

Another hot topic among baby boomers is the cost of long-term care facilities. MetLife recently issued a survey saying that one out of two people will require some

extended stay in a long-term care facility. With the cost of a long-term care stay approaching \$64,000 per year as an average across the country, which would make a significant dent in a baby boomer's retirement nest egg.

By the way, the longer you live, the more you'll benefit from delaying the start of your Social Security checks. Although you can start receiving checks as early as age 62, the amount of your checks increases the longer you wait, up until age 70.

Assuming you'll be able to work as long as you want.

Baby boomers are famous for proclaiming that they'll work past retirement age; an AARP study last year found 79 percent predicted they would continue working at least part of the time during their retirement years. How many greeters does Wal-Mart really need?

How they'll actually feel once they're in their 60s and 70s, though, is an open question. Right now, the typical retirement age is 62, according to the Employee Benefit Research Institute, and 40 percent of retirees say they left the workplace earlier than they'd planned, often because of illness, disability or layoffs.

In fact, 42 percent of women over 65 and 38 percent of men in the same age group have disabilities, according to the U.S. Census Bureau. Only 12 percent of people over 65 are still in the work force, 16.9 percent of men, and 8.9 percent of women.

Many people find that even without chronic health problems, their energy begins declining in their late 60s and 70s, although a few are able to work into their 80s or even 90s.

So if you're counting on part-time work to supplement your retirement income, don't count on it for long. You may be the exception, but it's smart to plan as if your working years won't continue indefinitely.

Locking in poor returns

There are a number of ways retirees do this, but two of the most common are certificates of deposit and immediate annuities.

CDs typically offer interest rates that aren't much higher than the rate of inflation. Add in taxes, and you're often losing purchasing power.

While CDs can be a part of your investment strategy in retirement, most retirees will need the long-term growth potential offered by stocks. The proportion of your portfolio that should be in stocks depends on your age, your risk tolerance and your growth needs, but many planners say the minimum for most people should be 50 percent.

Immediate annuities offer a similar pitfall. They're great in concept, a way to lock in a lifetime stream of income in return for a lump-sum payment to an insurance company. The problem is that the payments you get typically reflect the

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prevailing interest rates at the time you purchase the annuity. If you buy an immediate annuity now, you could be locking in rates that are still near record lows.

If the concept of an immediate annuity intrigues you, you have some choices. You could wait a few years to see if you can get a better rate and a higher payout. Or you could “dollar-cost average” by splitting your annuity money into slices and using each slice to buy an annuity each year for the next few years.

These are just a couple of the ways baby boomers can fumble before and during their retirement years.

For questions, contact John Schooler at (858) 677-0477 or john@wfpsecurities.com. John Schooler is the president of Western Financial Advisors and WFP Securities.