5 blind spots in your retirement plan

By David Ning October 31, 2014


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Those who spend time plotting their way to a comfortable retirement are certainly doing themselves a huge favor. It's much easier to meet financial goals when you start saving and planning at an early age. Still, sometimes getting too caught up in the details can backfire. Even diligent retirement planners often develop a few blind spots. Here are a few errors retirement planning enthusiasts can make:

Setting spending targets that are too conservative

Some successful savers want 100 percent safety for their retirement nest egg with margin to spare. While that's a worthy goal, it may not be possible to achieve it without unnecessarily reducing your lifestyle before or after retirement. For example, conservative spenders might want to reduce their annual retirement withdrawal rate from 4 percent to 3 percent or even 2 percent. The problem with this approach to spending is that most of us will probably need to work much longer to save enough to live on based on a 2 percent annual withdrawal rate from our liquid assets. The other big problem is unexpected costs. The future is unpredictable, so there's no way to account for every possible scenario. A better solution is to remain flexible in retirement. Start by withdrawing 4 percent of a balanced portfolio each year adjusted for inflation, but then consider cutting back at least a little when markets tank, which can help your portfolio to last longer.

The time horizon doesn't end at the last day of work

Healthy individuals could live for several decades past their retirement date. Switching to mostly bonds upon retirement may be very comforting psychologically, but you will also likely need the growth of equities to keep up with inflation and your spending habits. Working folks tend to forget that their portfolio can continue to grow in retirement, especially at the beginning when you are still near your peak account balance.

You still need to manage your investments in retirement

Retirement is not the finish line for your investment portfolio. There's still going to be a ton of planning to do once you quit work. In addition to continuing to manage your retirement investments, you will need to control your spending. There are also lifestyle considerations including where you will live and what you will do all day. Often, retirement planners spend so much time thinking about the money side of retirement that everything else is neglected. But you are likely to find that the financials, though important, are just a small piece of a successful retirement.

You may not stay sharp forever

People who have saved enough to retire well are usually pretty savvy with money. Many retirement savers have come up with clever strategies that require quite a bit of monitoring to make work. These strategies may have helped to grow your nest egg, but there may come a point when you no longer have the capacity to handle the complexity. If you are an investment tinkerer, make sure you come up with a plan to simplify your investments before someone else has to take over the mess.

Your priorities can change

Investors with a complex financial life typically set it up that way because they believe it will help them gain a financial advantage. But there may come a time later in life when you no longer care much about netting a few extra dollars. You may find that you have enough, or you'd rather spend time with your grandkids than think about whether small value would beat international mid-cap stocks. The only problem is that it may be difficult to unwind all the positions you've established through the years without huge tax consequences. While there are situations when an increase in complexity can help you get ahead financially, it's not always cost free to simplify your investments later on.

It's helpful when investing to look at the long-term picture. If you are saving at a healthy clip and accumulate enough to spend comfortably, you are setting yourself up to have a good financial retirement. Then you need to practice patience and let time and compound interest do its magic.

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