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Five Potentially Devastating Mistakes Pre-retirees and Retirees Make

The road to and through retirement is filled with potholes. Some are small and you may be able to drive right over them, but some can be devastatingly deep. They could send you on a financial tailspin with little chance of recovery.

Here are five mistakes that could hinder your retirement plans:

1. Focusing on the wrong thing.

Retirees spend a lot of time worrying about how much things will cost as they age – health care, long-term care, etc. My advice to retirees is to switch their mental energy to the other side of the ledger – to income. If you have enough income, and you're managing it well, you'll be prepared to handle those expenses as they come at you.

2. Misunderstanding risk.

No one knows for sure which way the market will go. We use different measures to aim to figure it out, but at the end of the day, it's impossible to predict. So, it's up to retirees to control the amount of risk they are experiencing. For many people, it's tough to get past the idea that risk equals reward. In the second half of one's financial life, however, one cannot afford the same kind of risk they experienced when they were saving money for retirement.

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3. Not knowing what you pay.

Many people go forward with their financial advisor's investment strategies without understanding all the possible costs in both hidden and disclosed fees. When you add up the cost of paying your advisor, along with the trading and product costs for your investments, the fees could be upwards of 3 percent. That means you have to get a 3 percent return just to break even. Don't just nod and agree with the advisor's plan that they set before you – ask questions and check costs.

4. Leaving your IRA or equivalent to your surviving spouse.

Most people leave their IRA to their spouse without even thinking about how the surviving spouse's tax status will change – from how the surviving spouse may file (single vs. married filing jointly) to how much taxable income they now have. We encourage married couples to work with their tax preparer or CPA to draw up a mock return that would reflect any possible changes to tax liability if a spouse would pass away. It's easier to plan for this significant life event than to have to react at that moment.

5. Accepting low returns.

The stock market isn't the only place to get a decent return these days. There are many different investment vehicles designed to create lasting income in retirement, which should be the number one focus of retirees. One of those vehicles is a Fixed Indexed Annuity. By taking a portion of their money and putting it on deposit with an insurance company, retires are able to take advantage of the upside of the market without taking on any of the downside risk. There are also options for creating assistance with potential long-term care costs – something many retirees fail to protect themselves against due to high premiums.

How can you avoid these potential problems in your retirement journey? I always encourage a person to find an advisor who specializes in the second half of an individual's financial life and to be sure and ask how the advisor is managing their funds. If you don't have an advisor, you need to be asking yourself, "How can I avoid these potential potholes in my retirement journey?" Receiving good financial advice is one of the most important things you can do for your future self.

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