7 Common Mistakes to Avoid with Your Retirement Money

By Tom Sightings, US News, July 19, 2019

Take care to avoid penalties and fees when preparing for retirement.

MANY PEOPLE MAKE sacrifices in order to put away extra funds in retirement accounts, such as not going on vacation or buying a new car. Once you've made the effort to save and invest, you don’t want to compromise your financial future by falling for something that might sound good now, but doesn’t contribute to a comfortable retirement.

Here are seven retirement money mistakes to avoid:

- Taking Social Security too early.
- Cashing out before you retire.
- Spending too much too soon.
- Playing the stock market.
- Failing to account for inflation.
- Failing to prepare for medical expenses.
- Not spending enough.

As you prepare for retirement, take care to avoid these financial mistakes.

Taking Social Security Too Early
There are a few good reasons to start Social Security early, such as failing health or a job that is killing you. But for many people it pays to wait until full retirement age or even longer to sign up for Social Security, because you will receive more money over your lifetime. For example, if you start benefits at age 62, your monthly benefit is reduced by about 30%. You’re trading a few years of early benefits for a lifetime pay cut. If you live into your 80s or longer, then you’re leaving a lot of money on the table if you sign up for Social Security early.

Cashing Out Before You Retire
Once you have a sizable balance in a retirement fund, it’s tempting to dip into your savings to buy a new house or pay for college. Perhaps you will promise to pay yourself back later on. But usually when it’s gone, it’s gone forever. Remember, when you withdraw funds from an IRA, you must pay income tax on that money. If you take a distribution before age 59 1/2, you may also face a penalty, depending on the use of the funds.

Spending Too Much Too Soon
When you begin retirement, you will probably still be active and healthy. You may want to spend money to have fun. Perhaps you plan to travel or buy a boat. After all, as you get older, you may be more inclined to stay at home and won’t get a chance to spend the money on something fun. But what if you live to age 90? You need to keep some resources in reserve so you don't end up dependent on government benefits or become a burden to your kids.

Playing the Stock Market
Many working people automate their 401(k) savings and investments as they focus on career and family goals. Now that you’re retired, can you do better on your own? The first thing to consider is: Do you really think you’re smarter than the financial wizards on Wall Street? If the answer is no, as it is for most people, then you’re better off sticking to a low-cost diversified ETF or mutual fund. If you do decide to play the stock market with some retirement money, make sure it’s money you can afford to lose if things go wrong.

Failing to Account for Inflation
The government says inflation is barely 2%. But we don’t know if or when more significant inflation will occur. Retirees are often hit hardest by inflation because pensions may not be adjusted for inflation. Social Security payments

are adjusted annually to keep pace with inflation, but often the increases simply cover higher Medicare costs. So you should keep at least a portion of your savings invested in assets that tend to increase with inflation, such as some stocks, real estate or a rental property.

Failing to Prepare for Medical Expenses

Most retirees have Medicare, which along with supplemental insurance, covers most medical bills. But retirees still need to pay for deductibles, uncovered procedures and copays, and these can add up over time. Furthermore, many health expenses, like dental costs, eyeglasses and hearing aids, are often not covered by Medicare. So for your own comfort level later in life, earmark some funds for health expenses that are sure to occur as you age.

Not Spending Enough

It's a good idea to be careful with your retirement savings, because as you get older you have fewer opportunities to make more money. Still, it is possible to be too cautious. There’s no reason to scrimp and save in your 60s and 70s, only to end up with a big estate for your children to fight over. It might be nice to leave your kids a small inheritance, but don't take on unnecessary hardships when you have plenty of money in the bank.