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# 5 MYTHS OF RETIREMENT PLANNING

There are several common myths that often prevent retirees from maximizing their retirement savings and income ultimately negatively influencing their peace of mind. We'll jump right into these important insights.

## 1. WHEN TO DRAWDOWN SOCIAL SECURITY

Once I retire, I should trigger Social Security immediately so I can limit the drawdown of my portfolio for retirement living expenses?

This seemingly logical approach to managing retirement distribution ignores two crucial risks that need to be managed carefully – longevity risk and inflation risk. Social Security or other lifetime pensions with Cost of Living Adjustments (COLA) are the only investments that produce a risk-free (almost) inflation adjusted income stream that a retiree cannot outlive. Each year that a retiree defers triggering their Social Security income, the annual payout grows by 8%. This 8% is not taxed during the deferral years and carries through the retiree's entire lifetime (plus COLA increases on the larger amount). This has a very positive effect and significantly reduces the chances of running out of money in later life.

There are also ways to optimize social security strategies between spouses that trigger one spouse's Social Security and wait to do so for the higher earning spouse in order to maximize lifetime earnings should the retiree live into their 80's or beyond.

## 2. ROLE OF DIVIDEND PAYING STOCKS IN RETIREMENT PORTFOLIO

Dividend Paying Stocks are a silver bullet solution that are superior to bonds and lower yielding stocks. They are often mistaken as a substitute for bonds in a retirement portfolio.

Just because having a portion of your portfolio in dividend producing stocks is helpful does not mean that you should make these investments the majority of your portfolio. Bonds are in a well-designed retirement portfolio to provide stability and ballast and allow retirees to avoid selling stocks during market downturns. This allows the stock prices to heal after market downturns and to avoid a faster than expected drawdown of the portfolio in the early retirement years. It also helps retirees sleep better at night and stick with their long-term investment strategy during unsettling times.

Also, there are many ways that companies choose to provide a yield to their shareholders. These include share buybacks, corporate acquisitions and other investments for growth. Excluding from a portfolio thousands of companies that have lower dividend

yields but are distributing or reinvesting profits in other ways reduces diversification and decreases expected returns in portfolios.

### **3. PAYING DEBT**

I should pay off debt and kid's college tuitions before saving for retirement.

While being debt free at retirement is certainly a worthy goal, no one should wait until they are debt free to begin saving for their golden years.

If you run out of money in retirement, you could find yourself a burden to your children when they are trying to raise their own family. Therefore, it is important to save and invest regularly and prioritize this goal above other college or debt repayment during your pre-retirement years.

### **4. THE ILLUSION THAT IS MEDICARE**

Medicare will take care of my healthcare expenses in retirement.

In fact, your health will probably be your biggest future expense. Fidelity estimates that a couple who retires in 2014 will need as much as \$240,000 beyond their Medicare coverage to pay for health care costs in retirement. This estimate covers deductibles and copayments, out-of-pocket expenses for prescriptions and visits to specialists, as well as other expenses, like dental visits, hearing aids, and eyeglasses. None of these are covered under Medicare.

Medicare probably won't pay for long-term care, and if it does, it will only cover you for up to 100 days. With the annual cost of a nursing home averaging \$78,000, this type of expense can quickly wipe out retirement savings. One potential solution is to purchase long-term care insurance but this is usually most practical by age 59 and most people choose to partially self-insure this risk due to cost and risk of future rate increases.

### **5. I WILL ONLY HAVE TO SUPPORT MYSELF DURING RETIREMENT**

Six in 10 Americans past the age of 50 provide financial support to family members, according to a Merrill Lynch/Age Wave report. This is because more than a third of young Americans aged 18 to 31 still live at home. This means that parents are often providing food, clothing and phone bills during retirement.

The other part of the "sandwich generation" dynamic is the need and desire to support elderly parents. As people are now living longer, it is common to find retirees providing housing, financial and long-term care support for their parents. These potential expenses are hard to quantify and plan but they need to be addressed in a well-crafted financial plan.