

# DON'T BE FOOLED: 6 COMMON RETIREMENT MISCONCEPTIONS

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In an effort to keep things simple for people who are nervous about retirement, whether they are 42 or 62, conventional planning strategies focus on how to save and invest money. If you save **X** amount and invest wisely, you will live happily for **N** years. That is how retirement misconceptions begin.

Saving is good but hard. Smart investing is good and quite difficult if the appropriate strategy is not employed. Hoping for the best as you draw down that savings to meet your budget in retirement, while absorbing the ups and downs of the stock market, inflation, medical and caregiver expenses virtually ensures that you will remain nervous about your financial health up to and through retirement.

## **THE PROBLEMS WITH CONVENTIONAL WISDOM-**

**MISCONCEPTION NO. 1: 401(K)/IRA PLANS OFFER RETIREMENT INCOME.** Vehicles such as 401(k) plans and IRAs are good ways to save because you can build tax-deferred savings. And if you simply follow the mandated required minimum distributions, you will have a retirement drawdown strategy. The problem: While you are required to take distributions out of these plans starting at age 70½, (whether or not you need the money) it is not a retirement income strategy in the true sense of income, since "income" consists of money received without any other financial effect. Withdrawals impact your total savings and, as such, are not truly income. *P.S. You can't avoid paying taxes, but you can minimize them, as I explain here.*

**MISCONCEPTION NO. 2: RETIREMENT CALCULATORS ARE ACCURATE.** When you research a plan for retirement, you will find many versions of devices called retirement calculators. It's OK to fill in the blanks and let them provide a number. The problem: Calculators might give you a rough idea of how much money you must accumulate, but they won't address your personal situation or help you plan for guaranteed, lifetime income.

**MISCONCEPTION NO. 3: SET YOUR ASSET ALLOCATION AND FORGET ABOUT IT.** Most people know that you should make sure the money in your 401(k) or IRA is diversified. Your savings shouldn't be invested in just one type of asset class, like growth stocks, for example. The problem: What the advice doesn't say is this: When you are about to retire, you need to reconsider your pre-retirement asset allocation and add other choices to the mix. The plan you developed when you were 35 won't work at 65.

**MISCONCEPTION NO. 4: ALL ANNUITIES ARE BAD.** That is what you will hear in a drumbeat of advertising and social media from advisers who have built businesses out of selling products based on the stock market and other returns. The problem: The headlines do not distinguish between different types of annuities. An income annuity, for example, is the only product that provides guaranteed lifetime income, similar to Social Security or a pension. So, for many people, it makes good sense to include an income annuity as part — but never 100% — of your portfolio.

**MISCONCEPTION NO. 5: ALL REVERSE MORTGAGE STRATEGIES ARE BAD.** As with annuities, an industry has grown to convince you never to utilize a reverse mortgage. The problem: Again, retirees should consider whether this option might provide benefits as part of a diversified retirement strategy. In moderation, and properly managed, a reverse mortgage can provide peace of mind in the form of tax-free cash flow and long-term liquidity for a retirement plan.

**MISCONCEPTION NO. 6: FINANCIAL ADVISERS CONSIDER ALL OPTIONS.** Your financial adviser has discussed asset allocation with you. How much of your money should be invested in stocks, bonds, mutual funds, ETFs, cash? The problem: Advisers don't talk enough about **PRODUCT** allocation. What do you do specifically with your major sources of savings — rollover IRA/401(k), personal savings, deferred annuities and equity in your house — to create retirement income? Each has its own tax and other considerations. Deciding how to use them most efficiently in your retirement income plan may be the greatest contributor to retirement income success.

**THE BOTTOM LINE:** Saving money is a simple but important concept. As you approach retirement, it is just as important to determine how much income your savings can provide. When you concentrate on the income power your savings has, your decisions will become easier.