

Safe Money Advisory



Major Flaws in Retirement Investing

Houston, Texas
For Immediate Release

It's a fact that Americans in the red zone right before retirement, or already in retirement, generally make two mistakes when it comes to investing: first, they continue to invest at sixty-something like they're still forty-something; second, they "bunch investments" in short maturities as if all their money is needed this year. This generally means they're taking unsuitable risks and/or missing the opportunity of better long-term growth. During the 25-30 years of retirement, risk will abound (economic cycles, medical problems, inflation, taxes, etc.). These mean that safeguarding your retirement money is a must.



During retirement you can't rely on an income to offset investment losses that may occur. Yet, far too many have their entire retirement nest egg in the market: stocks, bonds, mutual funds, variable annuities or other investments whose values go up and down. How much of your money in retirement should be "at risk"? For the exact answer you'd have to be a fortuneteller because future market movements, inflation and taxes are unknown. One way to "estimate" the maximum amount you can afford to expose to the market is to take your age (or the oldest if a couple), add 10 and subtract from 100. For example, a couple with the oldest at age 68 might "risk" 22% ($100 - [68 + 10] = 22$) of their retirement nest egg. If you believe you have too little for retirement, you should not take market risk. If you have more than needed for retirement, market risk may mean shortchanging heirs, a favorite charity and more worry.

Inflation is beyond our control, yet it is the seed of our financial ruin if we fail to plan for it. One worrisome item for retirees is medical care, because this is a relatively larger budget item for them. Health costs are rising rapidly in response to the 76 million baby boomers reaching retirement age. This age wave impact on medical costs will become pressing because the typical American receives 80% of their lifetime medical care in the last two years of their life. Inflation and emergency access to your money must be part of your retirement planning.

It has been said that neither taxes nor death can be escaped; however, both can be postponed with planning. Postponing taxes as long as possible is very important for your retirement money because of triple compounding: interest on the money you have invested, interest on the earnings not withdrawn, plus interest on the money that otherwise you'd pay in taxes. Retirees can avoid current taxes by using safe, tax deferred places to put their money. Why pay tax on earnings you're not using? Why not get triple compounding with tax deferral? Tax deferral may also reduce taxes on your Social Security. You can't take advantage of tax-deferral if your money is in short term CDs or speculative investments.

There's a way to simultaneously battle risk, inflation and taxes, plus avoid the two common retirement investment mistakes discussed above. Here's how. Divide your income and financial assets into three categories: one, your on-going income like Social Security, pension, rental income, etc.; two, determine the percentage of your retirement money that absolutely should not be exposed to loss (if uncertain, use the age plus 10 formula); three, what's left, if any, can be used to "play the market" and "hope for the big win" knowing that you may strike out but survive financially. The second category will supplement category one and should be accessible for emergencies. Put category two money into maturities of 5, 10 and even 15 years because (a) you'll get a better return by committing for longer periods, (b) the triple compounding of tax-deferral increases in power the longer the investment, and (c) you'll worry a lot less with rock-solid investments positioned to make sure you don't outlive your retirement money.

While this may seem complicated, there is an army of qualified retirement advisors that can help. You should view their involvement as "insurance" against making mistakes like bunching your retirement money in the wrong maturity, making unsuitable investments, missing out on the power of tax-deferral, and overlooking one of the many retirement-friendly investments that have become available in the past few years. Each new decade witnesses the birth of new safe-money investments and the burying of outmoded ones that are no longer appropriate: it is hard to stay current in an area as complicated as retirement investment-planning without professional guidance. The solution is to learn all you can on your own and then work with a financial advisor with whom you feel comfortable. Otherwise, you run the risk of continuing investment habits used during your working years but which are far too risky for retirement.

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