

## **The Six Sins of Retirement Planning**

It's probably not too difficult to recall a couple of missteps you've made in the past with your finances. However, instead of worrying about them, you should be more concerned about identifying the missteps that you don't know you're making. Below are six of the most common and costly errors that people make with their finances. They are also the kinds of missteps that can be hard to identify unless you know what they look like. It can be relatively easy to make changes, once identified, that will help clear up any concerns and get you on track to meeting your financial goals, such as a comfortable retirement.

### **Misstep 1: Buying the Most Popular Investments**

When a particular mutual fund or other investment is setting the world on fire, it's tempting to invest heavily in it. But such popularity may cause an investment to rise to unsustainably high levels — and the risk of a sharp decline grows when that occurs. Thus, investors who pile into today's high-flying funds or new products might end up with losses and/or regrets tomorrow.

### **Misstep 2: Making Short-Term Investment Decisions**

Some investors are tempted to make short-term bets on particular investments, based on today's economic news. But the factors that drive investment yields can be complex, and play out over long cycles. It is much simpler — and usually safer — to base your decisions on a longer-term outlook for most investments. Interest rates, although important, should not be the sole factor in choosing an investment. If you're working with a competent financial services professional, he or she probably has a “strategy” for the big picture that is tailored to help meet your goals based on many variable factors. If you're in your 50's or 60's, you have a lot of years to plan for retirement income, savings and so on. Since no one can look into a crystal ball, working with an experienced financial professional can be extremely helpful and comforting since they have probably been working with many clients through many cycles and events. The end result is that they may have credible indicators to help you meet your goals.

### **Misstep 3: Taking Too Much Risk**

Mutual funds and other investments that offer the most potential for long-term growth often carry considerable risk. There's nothing wrong with taking on that risk, as long as you are willing to ride out significant fluctuations in the value of your investments. All too often, however, investors attracted by the chance for significant gains invest heavily in funds or other assets without understanding the risks they carry. If you're in retirement or getting within five years of retiring, you may want to seriously consider reducing your risk tolerance. Naturally, most people want to get as much growth on their money as possible. However, serious focus needs to be placed on how much you are willing to lose in pursuit of that gain. Typically, retirees and pre-retirees like to have a high percentage of their investable assets in fixed income or lower risk vehicles, because these individuals may not be able to afford a downward trend or cycle if they're relying heavily on their dollars to provide them with an income. A qualified financial services professional can help you look further into your variable investments to see the quality of the funds, money managers, etc. It never hurts to know more about your money and what it's doing or might do in the future.

### **Misstep 4: Ignoring Tax Consequences\***

Taxes can drastically affect your investment returns. If you are in a tax bracket that pays roughly 25 percent to the IRS, one out of every four dollars in interest you earn is taxable. Those that should be most concerned about paying tax on money that they are not using are those that are still working, have

a combined annual income above average, and those who dislike the idea of giving money away that they would rather keep for themselves. Some investors pass up the opportunity to keep more of their money in their own pocket because they don't understand how some investments are taxed or they don't understand the importance of tax-deferred or tax-free vehicles versus investing in other vehicles that carry no tax benefits.

### **Misstep 5: Investing Without a Plan**

If you consider your investment options one by one, it's easy to find some that you like more than others. However, if you simply pick your favorites or ones you are used to, you may end up with a portfolio that may not meet your needs. Instead, you should create a retirement plan that is based on your long-term goals and your risk tolerance, choosing a mix of vehicles that can work together to address those needs. When working with a financial services professional, it is of the utmost importance to describe your situation, your goals and the things you like and don't like related to finances. Based off your desires, the professional can present you with options that can help you accomplish your goals. It's a similar situation when you see a doctor if you aren't feeling well. You describe what you're experiencing and what you are looking for as an end result. The doctor typically may prescribe treatment or medications that you've never heard of. Once comfortable with the risks and benefits, in many instances, the treatment or prescription may be the key to accomplishing the goal.

### **Misstep 6: Worrying Too Much**

After you have a plan in place, you and your financial services professional will review periodically and possibly make adjustments as needed. It is so important to have someone looking out for you especially when we're talking about your finances. In the meantime, go back to enjoying your time with family and friends. Your future is important — but perhaps the biggest mistake of all is to worry about it so much that you miss out on the satisfactions of the present.

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