The Basics

8 ways to botch your retirement

You don't have to stop working if you don't want to, especially when there are so many easy ways to ensure you'll toil away until your dying day.

By Bankrate.com

If 50 is the new 30, then 80 must be the new 60. Good thing, because otherwise a lot of people would not live long enough to retire before drawing their last breaths.

Last year, Bankrate's financial literacy survey indicated that one in five people expected to work until they died. This year, one in five people say they're afraid they'll never be able to retire. It's true: We asked the same question two ways and got identical results.

At this rate, the competition for greeting jobs at Wal-Mart will be as fierce as the struggle to get into Harvard.

For the dedicated workers who aspire to devote their entire lives to propelling the economy forward with their unceasing toil, the dream of not retiring can be achieved in any number of ways. We came up with eight.

Spend too much

The most obvious way to ensure that only death's sweet embrace will release you from the bonds of employment is simply by saving nothing and spending a lot.

Spending more than you should on things you could easily live without is an effective way to mess up your retirement plan, says Ralph Lunt, a certified financial planner and chartered financial consultant at Strategic Capital Advisors in Cleveland.

Vacations, new cars and expensive home remodeling can all feel like necessities. "You have to ask, 'Can I afford it?'" Lunt says. "Then you have to crunch the numbers. And maybe if you cut back in other areas you can afford it -- maybe skipping a vacation or not eating out so much."

If you don't want to retire, skip the self-assessment and get out that credit card!

Save little or nothing

In America, spending is in our collective DNA, but saving is not.

For the slackers who think they might want or even need to quit working at some point, most experts recommend saving for retirement in a tax-advantaged plan, such as a 401(k). Further, workers should contribute at least enough to get any matching contributions from their employers. (See "7 ways to mess up your 401(k).")

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Some experts contend that contributing only the amount of the match is not enough and that the contribution should be upward of 10%.

"It's always, 'Yes, I'll put in enough to get the match, but that's it,'" says Dallas certified financial planner Chanc Woods, a member of the Financial Planning Association. "Why not put in another 2 or 3%? It won't affect your take-home pay that much."

The Employee Benefit Research Institute's annual survey, released in April, said 22% of workers surveyed had not saved at all for retirement -- or for anything else.

Ignore other savings vehicles

If your job doesn't come with benefits, as is the case at many small businesses, then obviously you're totally off the hook; working well beyond your twilight years is virtually assured. After all, it's not like there are any alternatives for deprived employees or the self-employed.
Delude yourself no further. You do have options. Take, for instance, a SEP IRA (simplified employee pension individual retirement account)or an individual 401(k) plan for the self-employed.

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And don't forget a standard IRA, which allows workers to save up to $5,000 annually ($6,000 in 2008 if you're over 50), as long as they earn at least that amount.
And those who don't want to deal with tax-deferred savings vehicles have no options, right? Actually, they do.

"The younger generation is only putting money into a 401(k), if that. They don't know that there are taxable brokerage accounts or Roth IRAs that you can put money into," financial planner Woods says. (See "Build a bigger nest egg.")

With many investment and savings vehicles available, you should not feel limited to only one kind of account unless you see yourself bagging groceries at 85.

Disregard taxes

Some people may wait to screw up their retirement. Though the process of not saving can last a lifetime, actual savings may not when it comes time to get a distribution from a tax-deferred account.
Financial planner Lunt says people typically think that now that they're retired they won't have to pay income taxes anymore.

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"Often people make incorrect assumptions about what their lives will be like in retirement," says certified financial planner Paula de Vos, the president of Synergist Wealth Advisors. "They think they will be in a lower tax bracket, but they may be in a higher one."

Unless your retirement savings have been invested in a Roth IRA or a Roth 401(k) (see "A tax-free retirement just got closer"), distributions will be taxed as ordinary income. "That could be 25 to 30% less in retirement dollars that someone isn't expecting," Woods says.

Plus, he says, a lot of people think income-tax rates now are the lowest they'll ever be. A look back in history shows they have been higher most of the time. In the 1940s, the top marginal tax rate was 94% for individuals with taxable income of more than $200,000 -- a lot of money in those days, true. But prospective retirees could still be looking at paying higher rates than today's top rate of 35%.

Though they're completely unavoidable, taxes have to be considered in planning for retirement income. If you go to all the trouble of saving and then end up with less income than you'd expected, it can definitely ruin your retirement or at least put a damper on it.

Overestimate portfolio earnings

Compounding interest is indeed magical. A little money plus a lot of time can equal a lot of money. (See "Money math you need to know.") But there's only so much it can do with the variables involved.
Retirement hopefuls who dillydally in their savings efforts may find the time portion of the equation so drastically reduced as to be somewhat ineffectual without lots of money thrown in.

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Similarly, young people whose savings start strong and then taper off might find that they could have accumulated much more money had they just saved more consistently over time.

- **Multimedia:** The magic of compounding

Plus, failing to account for market volatility could have would-be Warren Buffetts wishing some days that they had put most of their money in certificates of deposit.

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People sometimes assume constant growth rates, Synergist Wealth Advisors' de Vos says.
"They overestimate the amount of certainty in an uncertain world, and it's something you have to maintain vigilance over," she says.

Miscalculate lifetime earnings

Some optimistic people assume that one day their paltry income will catch up with their spending and they'll finally have more than enough money to pay off the mortgage, save for retirement and pay down debts.
"The economy has been pretty nice to us over the past 10 or 20 years, and kids don't know what it was like in tough bear markets," Woods says.

"The Great Depression was so long ago that kids don't know how difficult the job market can be or how bad the economy could get. Everyone knows that they should have three to six months of expenses saved up, but instead everyone is trying to be cool and buying nice cars and clothes."

That throw-caution-to-the-wind type of thinking lends itself to the work-until-you-die lifestyle. By assuming that things will get better and that the worst will never happen, you face a pretty good chance of finding yourself broke and trying to catch up. Probably well before retirement.

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Adopt the ostrich-style planning approach

If you've been able to tune out advertising messages and instead accidentally scrimped and saved for your golden years and find yourself doing pretty well, don't worry. There are still plenty of ways to go wrong.
For instance, without a plan for every aspect of retirement, things can go seriously awry. From long-term-care needs to the death of a spouse, any number of factors can derail a plan. The what-ifs could keep a less sanguine person up at night. (See "No long-term-care insurance? Uh-oh.")

"Part of a retirement plan is knowing that we're saving this much every month and we're 35 and, at a 5% return, in 30 years we're going to have all this money," Lunt says. "Well, what if one of us isn't here next month?"

Term life insurance may provide some peace of mind by providing funds to a surviving spouse or children.

Any catastrophe can change long-term financial plans irreversibly. "Just in the state of Texas, an assisted-living facility, nursing home or home health care runs about $150 to $170 a day just for the care. The average need is just over three years," Woods says.

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Long-term-care insurance, though somewhat pricey, can guard against the depletion of your estate or your family's funds in the event of a lingering medical issue. According to AARP, about 60% of people older than 65 will need some kind of long-term care.
Health care can eat into retirement plans as well. The Employee Benefit Research Institute estimates the upper range of out-of-pocket medical expenses in retirement for a 65-year-old couple can be from $235,000 to $376,000. Those figures can almost double for a couple with large prescription needs and only Medicare and Medicare supplements.

The figures are lower if you're willing to roll the dice for a 50% chance of having enough money rather than a 90% chance. To have a 50-50 chance of having enough money to cover health care costs in retirement, a 65-year-old couple could need between $154,000 and $246,000. (See "Your retirement health care bill: $225,000.")

Though some people may enjoy the security of buying life and long-term-care insurance, others prefer to use another type of time-tested, though historically risky, long-term-care insurance: having lots of kids. It is hoped you raised them all to be doctors or nurses.

Remain ignorant about investments

Though socking away dollars goes against the never-retire plan, using that money ineffectively can hamstring any retirement efforts.
Ignorance about investments can slow down growth. A typical blunder is to own several funds of the same category, such as

two large-capitalization value funds. Anyone can easily trip up good intentions by disregarding the value of asset allocation and diversification.

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"People may underestimate the power and the benefit of a globally diversified portfolio. Because a portfolio has a bunch of different things does not mean that it is a globally diversified portfolio," financial planner de Vos says.

It may take professional help. For anyone who doesn't have the time to plan, fee-only financial advisers can map out a route to retirement without the detours that many people inadvertently take. Use Bankrate's database to find a certified financial planner near you.

From rolling over 401(k) plans to choosing a place to keep your IRA, the choices can be overwhelming and lead busy people to make hasty, uninformed choices.

"Sometimes when people are looking to roll over qualified plans, they don't necessarily explore all of the benefits or detriments in assessing whether it's the right thing for them to do in a given instance," de Vos says. From tax, legal and financial standpoints, she adds, "they are fairly complicated."

Whether you do it yourself or have someone help you, planning is essential unless, of course, you want to work until you die.

"Certainly, the day you retire isn't the first day you should be thinking about it," Lunt says.

This story was reported and written by Sheyna Steiner for Bankrate.com.

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