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8 ways to ruin your chances to retire

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If 50 is the new 30, then 80 must be the new 60. Good thing, because otherwise a lot of people won't be retiring before they draw their last breath.

Last year Bankrate's Financial Literacy survey found that one in five people expect to work until they die. 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 different ways, and the results are unsettlingly identical.

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.

Ruin retirement

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 feel you need, but 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, expensive home remodeling can all feel like necessities. "You have to ask, can I afford it?" says Lunt. "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, for instance, a 401(k). Further, workers should contribute, at minimum, enough to get the match offered by their employers, if they offer matching contributions.

Some experts contend that just contributing the match is not enough at all and the contribution should be upward of 10 percent. "It's always, 'Yes, I'll put in enough to get the match, but that's it,'" says Dallas-based Certified Financial Planner Chanc Woods, a member of the Financial Planning Association.

"Why not put in another 2 (percent) or 3 percent? It won't affect your take-home pay that much," he says.

The Employee Benefit Research Institute's annual survey released in April found that 22 percent of workers surveyed have not saved at all for retirement -- or for anything else for that matter.

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, for that matter.
Delude yourself no further. You do have options. Take, for instance, the SEP-IRA or the individual 401(k) plan for the self-employed. IRAs allow 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 either, right? Clearly, if an account is not specifically designated for retirement, it really shouldn't be used.

No.

"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," says Dallas-based Certified Financial Planner Chanc Woods.

With many investment and savings vehicles available, no one should feel limited to only one kind of account unless they see themselves bagging groceries at 85.

If they are actually contributing the maximum allowed annually to their 401(k) plan, up to $15,500 ($5,000 more for those age 50 or over), they might even be able to afford a round-the-world voyage on the Queen Elizabeth II once they kiss their jobs goodbye. But those who'd rather float on a rubber mattress when they're not punching the time clock can always set their sights lower.

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.
Lunt says that people typically think that now that they're retired, they won't have to pay income taxes anymore.

"Often people make incorrect assumptions about what their lives will be like in retirement," says Certified Financial Planner Paula de Vos, 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), distributions will be taxed as ordinary income. "That could be 25 (percent) to 30 percent less in retirement dollars that someone isn't expecting," says Woods.

Plus, he says, a lot of people feel that income tax rates now are the lowest they'll ever be. A look back in history proves that. It's been higher most of the time. In the 1940s, the top marginal tax rate was 94 percent for individuals with taxable income of more than $200,000 (a lot of money in those days, true). But this just goes to show you that prospective retirees could be looking at paying higher rates than today's top rate of 35 percent.

Though they're completely unavoidable, taxes have to be considered when planning for retirement income. If you go to all the trouble of saving and then end up with less income than you expect, 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. 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.

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.

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

People sometimes assume constant growth rates, says CFP Paula de Vos, president of Synergist Wealth Advisors.

"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 their mortgage off, 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," says Dallas-based CFP Chanc Woods, member of the Financial Planning Association.

"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," he says.

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

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.

"Part of a retirement plan is knowing that we're saving this much every month and we're 35 and at a 5 percent return in 30 years we're going to have all this money," says CFP Ralph Lunt, vice president and chief financial officer at Strategic Capital Advisors. "Well, what if one of us isn't here next month?"

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

Any catastrophe can potentially 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," says Dallas-based CFP Chanc Woods.

Long-term care insurance, though somewhat pricey, can guard against depleting your estate or your family's funds in the event of an ongoing medical issue. According to AARP, about 60 percent of people over age 65 will need some kind of long-term care.

Health care can eat into retirement plans as well. The Employee Benefit Research Institute estimates that the upper range of out-of-pocket medical expenses in retirement for a 65-year-old couple ranges from $235,000 to $376,000. Those figures can potentially 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 percent chance of having enough money rather than 90 percent, as above. 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.

While 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 actually socking away dollars goes against the never-retire plan, using that money ineffectively can hamstring any retirement efforts. Ignorance when it comes to your investments can slow down growth. A typical blunder is to own several funds of the same category, for instance, holding two large-cap value funds. Anyone can easily trip up good intentions by disregarding the value of asset allocation and diversification.

"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," clarifies CFP Paula de Vos, president of Synergist Wealth Advisors.

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 professional 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," says de Vos. From tax, legal and financial standpoints, she adds, "They are fairly complicated."

Whether you do it yourself or have someone to 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," says CFP Ralph Lunt, vice president and chief financial officer at Strategic Capital Advisors.