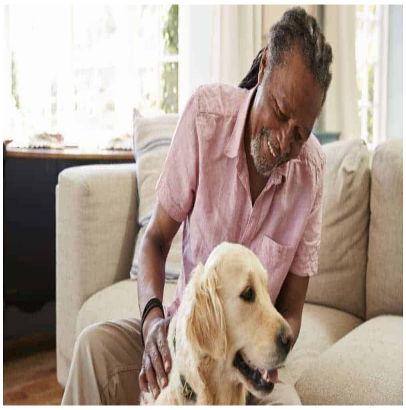

5 Mistakes Even Smart People Make When Planning For Retirement

Description

We all make mistakes. Yes, even smart people make mistakes. And when it comes to retirement planning, even the smartest of planners stumble on some pretty common mistakes. Here are just five to look out for as your planning your retirement.

1. Carrying too much debt

As Warren Buffett once observed, debt is the exact opposite of investments. With an investment, your money grows by compound interest: every year, the money you've invested, plus the money you've earned, grow together to earn you more money. Investing over long periods of time is how ordinary people become extraordinary wealthy.

Debt grows, too, but in the *opposite* direction. Every day you don't pay off what you owe, your starting balance (the "principal") grows by an interest rate. The longer you wait to pay off your debt, the more money you'll end up spending.

So it's absolute crucial that you unyoke any consumer debt from your personal income. Debt steals your ability to save, including your ability to save for retirement. Pay off your debts now, and you'll free your income for more aggressive savings goals, like retirement.

2. Investing too conservatively

Let's be real: the stock market can be intimidating, especially. People lose money on stocks, so why would you take such a risk for a major savings goal, like retirement?

The truth is, if you invest conservatively, that is, put your money in bonds and savings accounts, you're only exchanging one risk for another: the risk of inflation outpacing your portfolio's rate of return.

You're also missing out on an opportunity to grow your savings by an exponential amount. Even a 6% to 7% rate of return can grow $500 a month into a multimillion-dollar retirement account, with the appropriate amount of time.

If you're worried you might lose money in the stock market, you can invest in low-cost index funds or ETFs. These funds come prepackaged with a bundle of stocks, helping you achieve diversification. And because they're passively managed, the fees are fairly low.

3. Investing too aggressively

On the flip side, you could be investing too aggressively. This happens when you want to achiever a greater rate of return. The problem is that higher rewards always come with higher risks, and if you're too aggressive, your greed could cloud your ability to make good decisions.

Now, of course, if you're young, you'd be wise to invest a bit more aggressively than, say, someone who is near retirement. Taking your chances with growth stocks and some value stocks isn't going to sink your portfolio, as long as you're investing wisely. As you get older, you'll want to take your foot off the pedal and invest in less aggressive stocks.

But that isn't to say you should engage in super aggressive investing strategies, like penny stocks or day trading. If you're trying to get rich quickly, you might risk burning yourself (or your money) out.

4. Underestimating how much you'll spend

Imagine for a second that every day is Monday. About how much money do you spend on a typical Monday? Not a lot, right? Now imagine that every day is Saturday. How much more do you spend on a Saturday than a Monday? Yeah — on average, probably a lot more.

In retirement, every day *is* Saturday. This means that if you're basing your retirement expenses on what you spend now, you could be grossly underestimating how much you'll actually need.

To be safe, I would assume you're going to spend around 80% of your current annual income per year in retirement. And that's being fairly conservative. If you expect to have health problems, or if you want to live lavishly, I would bump that to 90% or even 100%.

5. Focusing too much on numbers and too little on life in retirement

Finally, here's one that smart people nearly always get wrong: planning for retirement without a clear *goal* for retirement.

If you're retiring because, well, that's what people do, then you need to step back and ask yourself what you want to do in retirement. And don't think for a second that you'll figure that out when you get to retirement. More often than not, when you retire without a goal, you'll face the biggest existential threat of retirement: boredom.

If you can’t think of reason for retiring, then maybe you don’t *need* to retire. After all, Warren Buffett is 91 and he’s not retired. Sometimes, loving your job is just as great as retiring from it.

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