

DEBUNKING A FEW POPULAR RETIREMENT MYTHS

by Dominic Lucente

It seems high time to dispel some of these misconceptions.

Generalizations about money and retirement linger. Some have been around for decades, and some new clichés have recently joined their ranks. Let's examine a few.

"When I'm retired, I won't really have to invest anymore." Society still sees retirement as an end instead of a beginning – a finish line for a career. In reality, for some people retirement is the start of a new and promising phase of life that could last a few decades. By not keeping one or two feet in the investment markets (most notably the equities markets), you may risk losing purchasing power as even moderate inflation has the potential to devalue the dollars you've saved. Depending on your situation, a good rule of thumb may be to keep saving, keep earning, keep investing, even in retirement.

"My taxes will be lower when I retire." Not necessarily. You may earn less, and that could put you in a lower tax bracket. On the other hand, you may end up waving goodbye to some of the tax breaks you enjoyed while working, and state and local taxes will almost certainly rise with time. In addition, you could pay taxes on money withdrawn from IRAs and other qualified retirement plans, perhaps even a portion of your Social Security benefits. While your earned income may decrease, you may end up losing a comparatively larger percentage of it to taxes after you retire.¹

"I started saving too late; I have no hope of retiring – I'll have to work until I'm 85." If your nest egg is not substantial, working longer may be beneficial. Continuing to earn a salary could allow you fewer retirement years to plan for and the potential for your savings to compound longer. Don't lose hope: remember that you can make larger, catch-up contributions to IRAs after 50, and remember that you have savings potential in workplace retirement plans. If you are 50 or older this year, you can put as much as \$24,500 into a 401(k) plan. Some participants in 403(b) or 457(b) plans are also allowed that privilege. You can downsize and reduce debts and expenses to effectively give you more retirement money. You can also stay invested (see above).²

"Medicare will take care of me when I'm really old." Not true. Medicare may (this is not

guaranteed) pay for up to 100 days of long-term care expenses you incur. If you need months or years of long-term care, you may have to pay for it out of pocket if you lack long-term care insurance. According to Genworth Financial's Cost of Care Survey, the average yearly cost of a semi-private room in a nursing home is \$235 a day (\$85,775 per year).^{3,4}

"I should help my kids with college costs before I retire." That's a nice thought, but you don't have to follow through on it. Remember, there is no retiree "financial aid." Your student can work, save, or borrow to pay for the cost of college, with decades ahead to pay back any loans. You can't go to the bank and get a "retirement loan." Moreover, if you outlive your money your kids may end up taking you in and you may be a financial burden to them. Putting your financial needs above theirs may be fair and smart as you approach retirement.

"I'll live on less when I'm retired." We all have the cliché in our minds of a retired couple in their seventies or eighties living modestly, hardly eating out, and asking about senior discounts. In the later phase of retirement, couples often choose to live on less, sometimes out of necessity. The initial phase of retirement may be a different story. For many, the first few years of retirement mean traveling, new adventures, and "living it up" a little – all of which may mean new retirees may actually "live on more" out of the retirement gate.

"No one really retires anymore." Well, it may be true that many baby boomers will probably keep working to some degree. Some people love to work and want to work as long as they can. What if you can't, though? What if your employer shocks you and suddenly lets you go? What if your health won't let you work 40 hours or even 10 hours a week? You could retire more abruptly than you believe you will. This is why even workaholics should have a solid retirement plan.

There is no "generic" retirement experience, and therefore, there is no one-size-fits-all retirement plan. Each individual, couple, or family should have a strategy tailored to their particular money situation and life and financial objectives.

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