## Personal Finance

# 3 Behavioral Mistakes in Retirement

Unfortunately, no buzzer goes off when you're doing something that's going to harm your long-term financial goals.

By John F. Wasik | 04-05-14

Once you've hit retirement age, it's often too late to make up for inadequate savings and bad portfolio allocation. But even if you got those key tasks right, a whole new raft of bad behaviors may be in play. Are you withdrawing too much money? Are you beating inflation? Are you underestimating your life expectancy?

There's often no reliable way of avoiding mistakes because you have no benchmark of best practices to model. Few have any education in portfolio management or long-term financial planning. There's no buzzer that goes off when you're doing something that's going to harm your long-term goals.
Thanks to the burgeoning field of behavioral economics, though, you can at least identity what you're doing wrong and take corrective action. Here are some common errors and how to approach them from a behavioral perspective:

1. **Underestimating Life Expectancy**

   No one is really good at this, but there are some guidelines. You can scan the life expectancy numbers from the Centers for Disease Control or Social Security, or use some simple rules of thumb.

A common error is to underestimate how long you're going to live, which brings up the specter of outliving your money. Here are some useful guidelines from the Center for Retirement Research (CRR) at Boston College:

- Life expectancy at 65 has increased by four years since 1980. If you're in reasonably good health and not suffering from chronic or acute diseases, you could live well into your ninth decade. But the CRR found that there is often no correlation between retirees' longevity estimate and how long they actually live. They often underestimate based on recent information such as illness or job history. It's better to take a longer view than a shorter one.

  *Read more: How Long You'll Live: A Guide to Guessing*

- Those (often incorrectly) predicting that they won't live very long take Social Security at 62. That has the permanent effect of locking in a low benefit for the remainder of one's life compared with taking benefits at 70. So being more realistic about lifespan can have a direct financial consequence. The longer you wait, the greater the benefit. A person who would normally receive $1,000 a month at age 66, for example, would receive $1,320 monthly if he waited four years. The math tells the story, and it's much more positive than a pessimistic prediction about how long you think you'll live.

*Read more: Social Security--Delaying Equals Staying Power for Your Portfolio*

- Suppose you're forced to retire due to illness or unemployment? That may not impact your total life expectancy. You may still be able to do some work, allowing you to delay taking Social Security and dipping into your nest egg. "Workers who think they have excellent chances of living to ages 75 and 85 expect to work longer and retire later than workers who think their chances are poor," according to the CRR. The best behavioral route here? Look at your family history. How long did your parents live? Be rational about your chances to live decades past retirement age. You also may need to re-evaluate any decision to leave the workforce completely.

## 2. Spending Too Much Money in Retirement

Once you stop working, other than dividends and capital gains in your portfolio, the cash flowing into your retirement kitty also comes to a halt. Those who want to spend heavily earlier in their retirement are prone to what economists call "hyberbolic discounting."

This phenomenon could also be called the "spend it while I have it" syndrome--that is, you spend money in the present thinking it won't be around in the future. Many tend to think that consumption now is better than savings or investment.

How do you short-circuit hyberbolic discounting? It's pretty simple. Look at the time value of money and build a graph using a basic savings calculator. See how it can grow over time versus taking a payment now. Once you see the magic of compounding at work, it should easily outweigh most other uses for that money today.

## 3. Going It Alone

If you haven't been working with third parties, then maybe now is the time. There are a host of professionals from retirement planners to certified financial planners who can help you create a rational plan.

It's often said by many retirees that "I've gotten this far without help, why do I need someone *now*?" There's no shame in hiring a professional who can either craft or guide a plan. They can spot some common errors in investment allocations, withdrawals, spending, taxes, and longevity risk. They can also keep you (or put you back) on course so that you don't outlive your money.

A key element in bringing in some outside advice is trust. You need to know whether the people you involve in correcting retirement planning mistakes have done it before and have the expertise to guide you.

Use advisors who are not focused on selling you products, which would exclude most brokers and agents. Pay for their time and expertise and avoid those working exclusively on commission.

"The most powerful and least-studied factor is trust," notes Russell Yazdipour, professor of finance at California State University. "It's the glue that holds the system together."

Once broken, trust is difficult to regain. That's why it's important to get references for advisors--and check them out. They can facilitate learning and keep you focused on your goals. But you have to make sure they are *fiduciaries*, that is, they have a stated legal obligation to put your interests above those of the firm. Fiduciaries include most financial planners, registered investment advisers, chartered financial analysts, and lawyers.

By combining an environment of trust with a focused, fact-based approach to retirement, you may not be able to completely overcome your worst tendencies, but you could at least build a new knowledge base. That, in itself, could lead to some positive changes.

About the Author
John F. Wasik is a freelance columnist for Morningstar and author of 13 books, including *The Audacity of Help: Obama's Economic Plan and the Remaking of America* (www.audacityofhelp.net).