

Top 5 Financial Mistakes Retirees Make—and How to Avoid Them

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Retirement. You've been dreaming about it for decades. No more early alarms, no more Monday morning commutes, and finally, more time for yourself. But here's the kicker: financial mistakes in retirement can quickly turn your golden years into a nightmare. As you move through your 50s, 60s, and into your 70s, certain financial missteps can quietly undermine your hard-earned wealth, jeopardizing your comfortable future.

So, how can you avoid these all-too-common pitfalls and ensure your retirement savings last as long as you do? The secret lies in a combination of forward-thinking, strategy, and the **Tactical Asset Allocation (TAA)** approach—a smart way to reduce market volatility and manage risk. But more on that later. First, let's look at the top five pitfalls and, more importantly, how you can avoid them.

Buckle up, because we're about to dive deep into retirement planning like never before, with a little wit and a lot of wisdom.

Underestimating Healthcare Costs: The \$315,000 Surprise

Healthcare in retirement isn't just an annoying budget line item; it's a financial black hole if you're not careful. According to Fidelity, the average couple retiring today will need **\$315,000** for medical expenses during retirement, and that doesn't include long-term care. Let that number sink in. That's like buying a house, except you can't live in it.

Why This Happens: Many retirees assume that once they hit 65, Medicare will swoop in and cover all their healthcare expenses. Spoiler alert: it won't. Medicare covers only about 80% of your healthcare costs. Dental, vision, and most long-term care services? You're on your own. Ouch.

The Costly Impact: Without proper planning, retirees can find themselves withdrawing larger amounts from their savings than they expected just to cover rising healthcare costs. Over time, this can leave your nest egg significantly depleted—just when you need it the most.

The Solution: Plan Ahead, Because Healthcare Won't Wait

- **Health Savings Accounts (HSAs):** If you're still working, max out your HSA contributions. HSAs are one of the most tax-advantaged accounts available, with tax-deductible contributions, tax-free growth, and tax-free withdrawals for qualified medical expenses. It's like having a cheat code for healthcare costs.
 - **Understand Medicare (and Its Gaps):** Medicare Part A is "free" (assuming you've worked for at least 10 years), but Parts B and D (which cover outpatient care and prescription drugs, respectively) come with premiums. Medigap policies or Medicare Advantage Plans can help fill in the gaps, so make sure to review your options before your 65th birthday party.
 - **Prepare for Long-Term Care:** Statistically, about 70% of Americans over age 65 will need some form of long-term care (U.S. Department of Health and Human Services). Whether it's nursing home care or in-home assistance, the price tag can be astronomical. Consider looking into **long-term care insurance** or hybrid life insurance policies with long-term care riders to mitigate this risk.
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Ignoring Inflation: The Silent Killer of Your Nest Egg

Remember when gas was under \$1 a gallon? Ah, the good ol' days. Fast forward to today, and inflation is like the uninvited party guest that eats all your snacks and sticks around longer than you'd like. For retirees, inflation is an ever-present threat that erodes the purchasing power of your savings. If you're not accounting for inflation in your retirement plan, you're setting yourself up for financial discomfort.

Why This Happens: Many retirees place too much of their portfolio in "safe" investments like bonds or savings accounts, which can be a dangerous move when inflation averages around 3% annually (Bureau of Labor Statistics). Over time, your dollars buy less, and those "safe" investments start looking more like ticking time bombs.

The Financial Impact: At an inflation rate of 3%, the cost of living doubles in about 24 years. If your investments aren't growing faster than inflation, your retirement lifestyle could be in for a rude awakening when you're 75 and still have 20 years to go. Yikes.

The Solution: Fight Inflation with Smart Investments

- **Treasury Inflation-Protected Securities (TIPS):** These government bonds adjust their principal value based on inflation, ensuring that your investment keeps up with rising prices. You can sleep a little easier knowing your investments won't be left in the dust by inflation (TreasuryDirect).
 - **Dividend-Paying Stocks and Real Estate:** Stocks have historically outpaced inflation, and dividend-paying stocks offer both growth and income. Real estate investments, especially through **REITs** (Real Estate Investment Trusts), can also provide a steady income stream that keeps pace with inflation.
 - **Delay Social Security:** Every year you delay claiming Social Security past your full retirement age, your benefit increases by about 8% (Social Security Administration). The added bonus? Social Security benefits are adjusted for inflation, meaning your higher starting benefit will grow even more over time.
 - **Maintain a Growth Element in Your Portfolio:** Don't completely abandon stocks in retirement. Sure, they're riskier, but they also provide the best chance of beating inflation over the long term. A well-diversified portfolio that includes equities can help you stay ahead of inflation while still preserving capital.
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Claiming Social Security Too Early: The 30% Mistake

If you claim Social Security at age 62 because you just can't wait any longer, you're potentially missing out on a significant increase in lifetime benefits. Here's the math: claiming Social Security at 62 reduces your benefit by up to **30%** compared to waiting until your full retirement age (FRA), and the longer you delay (up to age 70), the more your monthly check grows.

Why This Happens: Many retirees claim Social Security early because they believe the system is going to run out of money. Others need the income immediately or simply don't know the benefits of waiting.

The Long-Term Impact: By claiming early, you lock in a permanently reduced benefit. Over the course of a 20-30 year retirement, that could mean missing out on tens of thousands of dollars—money that could've gone towards healthcare, travel, or spoiling your grandkids.

The Solution: Wait It Out and Maximize Benefits

- **Delay Benefits Until Age 70:** For every year you delay past full retirement age, you get an 8% increase in your monthly benefit. That's an unbeatable guaranteed return in today's low-interest-rate environment (Social Security Administration). If you have other sources of income, use those to bridge the gap and allow your Social Security to grow. You also gain the advantage of any cost of living adjustments being applied to your benefit, even though you're not receiving the payments.
- **Spousal Strategy:** If you're married, there's an opportunity for some clever strategy. One spouse can claim Social Security early, while the other delays to maximize their higher-earning benefit. This way, you get income now, but the larger benefit grows for later.
- **Plan for Longevity:** With people living longer, there's a good chance you'll spend more time in retirement than you expect. Delaying Social Security ensures a higher monthly benefit for the rest of your life—and your spouse's, in the case of survivor benefits.

Failing to Diversify and Embrace Tactical Asset Allocation

Now, let's get into the meat of the matter: diversification and tactical asset allocation. Here's a quick analogy: think of your retirement portfolio like a delicious pie. You don't want to have only one flavor, do you? A well-diversified portfolio spreads your investments across different asset classes—stocks, bonds, real estate, commodities—to reduce risk and increase the chances of steady returns. But diversification alone isn't enough.

Tactical Asset Allocation (TAA) takes diversification to the next level by dynamically adjusting your portfolio based on market conditions. This strategy involves shifting your assets based on short- and medium-term market trends to reduce risk during downturns and capitalize on growth when the market is strong.

Why This Happens: Too many retirees either go too conservative with their investments, putting everything into bonds and "safe" assets, or they remain overexposed to risky equities. Both strategies can leave you vulnerable to either inflation risk or market volatility.

The Financial Impact: Failing to diversify or actively manage risk through TAA leaves you vulnerable to sequence-of-returns risk. That means if the market takes a dive early in your retirement, you may have to withdraw more from your portfolio to cover living expenses, reducing the amount of money you'll have for the future.

The Solution: Embrace Tactical Asset Allocation to Reduce Market Volatility

- **Tactical Asset Allocation (TAA):** Unlike strategic asset allocation, where you set and rebalance your portfolio, TAA involves adjusting your allocation based on market conditions. You might increase your exposure to stocks during bull markets, while during bear markets, you might shift more into bonds or cash. An article titled “A Simple Dynamic Strategy for Portfolios Taking Withdrawals: The Case for Using a 12-Month Simple Moving Average” in the Journal for Financial Planning emphasizes that TAA, or as they call it ‘Dynamic Allocation’ can help retirees reduce risk while maintaining long-term growth.
- **Diversify Across Asset Classes:** A diversified portfolio should include stocks, bonds, real estate, and possibly alternative investments like commodities. Each of these performs differently depending on market conditions, offering protection from downturns in any one sector.
- **Global Diversification:** Don’t limit yourself to U.S.-based investments. Adding international stocks and bonds to your portfolio can provide exposure to different economic cycles and reduce your overall risk.
- **Rebalancing is Key:** Rebalancing involves periodically adjusting your portfolio back to your target allocation. If stocks have done well and now make up a larger percentage of your portfolio than intended, sell off some gains and reinvest in underperforming asset classes, like bonds, to maintain your desired risk level.

Tactical Asset Allocation in Action:

Imagine you’re approaching retirement with a traditional 60/40 stocks-to-bonds portfolio. During a bull market, your stocks soar, and now your portfolio is more like 70/30. A **TAA approach** would suggest trimming those stocks and shifting some gains into bonds or other safer assets to reduce your risk ahead of a potential market downturn. Conversely, if the market tanks and stocks are cheap, you might increase your stock exposure to take advantage of future growth.

Neglecting Tax Strategies: The Silent Wealth Thief

Nobody likes taxes, but ignoring them in retirement can cost you dearly. Many retirees mistakenly believe that because they’re no longer working, they won’t have a significant tax burden. However, between required minimum distributions (RMDs), Social Security taxation, and the impact of withdrawals from tax-deferred accounts like IRAs and 401(k)s, taxes can still take a big chunk of your income.

Why This Happens: Tax planning is complex, and many retirees assume that because they’re done working, they’re done worrying about taxes. But without a plan for withdrawing money from your accounts, you might end up paying far more in taxes than necessary.

The Financial Impact: Mismanaging withdrawals from retirement accounts can push you into higher tax brackets and leave you paying more than you should. RMDs from tax-deferred accounts must start at age 73 (for those born after 1950), and failure to take them results in a whopping 50% penalty on the amount you didn’t withdraw.

The Solution: Implement Tax-Efficient Withdrawal Strategies

- **Roth IRA Conversions:** Converting part of your traditional IRA into a **Roth IRA** during lower-income years (like early retirement) can save you money in the long run. Roth IRAs offer tax-free

withdrawals and aren't subject to RMDs, giving you more flexibility later in retirement (IRS Roth IRAs).

- **Strategic Withdrawals:** Withdraw from taxable accounts first to allow tax-deferred accounts (like IRAs and 401(k)s) to continue growing tax-free. This approach can help minimize your tax bill and keep you in lower tax brackets.
- **Tax-Loss Harvesting:** If you have a taxable investment account, use tax-loss harvesting to offset gains and reduce your taxable income. This strategy involves selling losing investments to realize a loss, which can then offset capital gains and potentially reduce your overall tax bill (Investopedia on Tax-Loss Harvesting).
- **Reset your Basis:** Your cost basis inside a non-retirement account is something to keep track of. When you sell this investment, the net gain on the transaction is reported on your tax return for the year the transaction occurs. You may want to strategically sell, then repurchase a security that is appreciating once you understand the tax implications. You may be able to do this with a tax rate of 15% or less.

Conclusion: Crafting a Financially Secure Retirement

Retirement should be a time to enjoy life, not a time to worry about money. If you're aged 55-75, it's not too late to course-correct and secure your financial future. By avoiding these common mistakes—underestimating healthcare costs, ignoring inflation, claiming Social Security too early, failing to diversify (or embrace tactical asset allocation), and neglecting tax strategies—you can ensure your golden years are truly golden.

The key takeaway? Stay proactive. Don't leave your retirement to chance. Embrace smart strategies like **Tactical Asset Allocation**, diversify your portfolio, and be tax-savvy. A little planning now can go a long way toward making sure you enjoy a long, financially secure retirement.

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A stylized, handwritten signature of Ed Harris in dark ink, positioned above a thin horizontal line.

Ed Harris is the Founder and CEO of Apogee Wealth Management and the driving force behind Apogee Wealth Academy, a 501(c)(3) nonprofit dedicated to financial education. With over 20 years of experience, Ed helps clients navigate complex financial landscapes and achieve their goals through a holistic approach that considers financial, emotional, and psychological aspects of financial decision-making.

Beginning his journey in ministry at age 15, Ed developed a deep commitment to uplifting others. He and his wife, Melissa, raise their five children with values centered on health and personal growth. An advocate for financial literacy, Ed actively participates in community initiatives to empower underserved populations, striving to create a world where everyone can make informed financial decisions.

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