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Ten Frequent Retirement Mistakes You Should Avoid

When your retirement finally arrives, you can take a deep breath and exhale. You made it! But that doesn't mean you may relax completely.

In fact, mistakes made in retirement can cause significant financial distress. Here are 10 common pitfalls to avoid:

Mistake 1. Going on a spending spree. It may be tempting to start spending freely, especially because you now have more time on your hands. But you don't want to burn through your savings in just a few years. It's still important to rely on a budget that helps you balance monthly income and expenses.

Mistake 2. Applying for Social Security right away. Most people are eligible to begin receiving Social Security benefits as early as age 62. Although that may be the best approach for some retirees, it's not recommended for everyone. You can ensure greater monthly benefits by waiting until full retirement age (FRA) to apply—age 66 for most Baby Boomers—or even longer. Starting your benefits at age 70 will give you the largest possible monthly benefit.

Mistake 3. Not taking income taxes into account. Even though you're retiring, taxes will continue to have an impact on your financial life in general and your investments in particular. You still can take advantage of investment losses to offset capital gains that otherwise would be taxed, while distributions from your employer-sponsored retirement plans and IRAs may add to your tax bill. If you have a Roth IRA, you may be able to take tax-free payouts—or pass them along to your heirs.

Mistake 4. Becoming too conservative in your investments. The traditional advice is to shift your portfolio to lower-risk investments during retirement. That makes sense as a general principle, but don't go too far. Consider your life expectancy and how long you will have to stretch the income from your savings. By avoiding investment risk you could increase another kind of risk—the risk of outliving your savings.

Mistake 5. Being handicapped by your biggest asset. It's often hard to give up the home in which you raised your children. However, at some point during retirement, it may become too expensive to live there. Even if you've paid off your mortgage, you'll still be responsible for real estate taxes, repairs, and utilities, which could add up to thousands of dollars a month. Selling the old homestead and then buying a smaller place could free up your equity while reducing your costs.

Mistake 6. Being victimized by a scam. Con artists frequently prey on the elderly, and today's schemes are increasingly sophisticated, putting almost everyone at risk. Imposters may create phony websites that mirror ones from reputable financial institutions and

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U.S. Presidential Elections And Financial Markets

For those of us who have experienced more than one or two presidential election cycles, the 2016 campaign was more heated and contentious than usual. The stakes are high for the economy and financial markets, as new political leaders will need to address a wide range of pressing issues.

While political decisions can and do have long-term impact on measures of the U.S. economic performance, we need to remember what University of Chicago Professor and former chair of the President's Council of Economic Advisors Austan Goolsbee said:

"I think the world vests too much power, certainly in the president, probably in Washington in general for its influence on the economy, because most of the economy has nothing to do with the government."

While government may have some impact, the majority of companies will adapt and advance regardless of which political party controls the Oval Office.

Researchers have looked at whether stock returns were higher with a Democratic president or with a Republican president...it turns out (at least from a market perspective) that the party affiliation of the next president doesn't have much of an impact one way or the other on returns.

So before you make changes in your portfolio, keep in mind that historically, the stock market has not been particularly influenced by whether Republicans or Democrats have won the White House.

Your long-term financial goals should never depend on which party or candidate wins an election.

Your team at Siena Wealth Management

Remember The Lesson Of Rebalancing

Sometimes investors need to be reminded just how unpredictable equity markets can be. Any big, unforeseen event—such as the United Kingdom's so-called "Brexit" vote to leave the European Union—can result in dramatic market swings. And because such fluctuations are as inevitable as they are unpredictable, it makes sense to be prepared for all possibilities.

The best way for most investors to deal with short-term volatility is to stick to a long-term plan, rather than panicking or making ill-considered market moves. And your plan will need a proper balance between stocks and bonds in your portfolio. Historically, stocks have outperformed other kinds of investments and have provided a hedge against inflation, while bonds have provided steady income and more protection against market volatility.

Diversification and asset allocation—core principles for attempting to control investment risks—are used to create a portfolio that may have the breadth to reduce volatility when markets get turbulent. Your overall tolerance for risk can help determine how you allocate your investments to stocks, bonds, and other assets. Diversification and asset allocation are designed to minimize inherent risks, although there are no absolute guarantees.

But as important as it is to choose a mix of investments that makes sense for you, you'll also need to revisit your portfolio periodically to help restore the balance you've established. If stock prices rise, for example, that part of your portfolio may grow larger than you intended—and this could make you vulnerable if equity prices fall. "Rebalancing" helps you get back to the target percentages you started with.

Yet as simple as that may sound, rebalancing can seem counterintuitive in practice. It requires you to sell investments that have been doing well and buy others that have slumped. Your natural inclination may be to keep riding a wave of success, and to stay away from parts of the market that haven't performed well.

But rebalancing can help impose needed discipline for your plan. It can enable you to sell high and buy low and to maintain the broad balance that may cushion your holdings against volatility. And though it sometimes may result in a lower rate of return than you would have gotten if you'd let your winning positions continue to grow, that may be a small price to pay for feeling more comfortable about your investments.

Rebalancing also can help you resist the impulse to try to "time" the market—attempting to jump in when prices are rising and to get out before they fall. That is rarely a recipe for success and could lead to significant losses.

How often should you rebalance? Expert opinions vary, but you probably should review your portfolio and rebalance at least once a year. The end of the year could be a good time to get your ducks in a row. ●

Why Would You Take Your RMDs Sooner?

Is it time for you to begin taking required minimum distributions (RMDs) from your retirement plans? The rules for 401(k)s, other employer-sponsored plans, and traditional IRAs generally call for these payments to start after you reach age 70½ and to continue each year. But you don't actually have to begin RMDs until the "required beginning date" (RBD) of April 1 of the year *after* you turn 70½.

Nevertheless, you might bypass this respite. Why would you do that? Because you still must take another RMD later that year. Thus, you would be doubling up on payouts and have to pay more tax.

Although your savings in 401(k)s and traditional IRAs grow without being taxed along the way, you eventually must start receiving RMDs, taking one each year by December 31. These RMDs generally are taxed at ordinary income tax rates.

If you're still working and don't own the company you work for, you may be able to postpone withdrawals from an employer-sponsored plan with that company until you retire. But this exception doesn't apply to traditional IRAs.

The amount of the RMD is based on IRS life expectancy tables and the value of your accounts on the final day of the previous tax year. Your financial advisers or the financial company holding your account can provide assistance in computing the amount.

The penalty for failing to take an RMD is equal to 50% of the amount that should have been withdrawn (or the difference between the required amount and any smaller amount you did withdraw). For example, if you're required to take $20,000 and you're in the 28% tax bracket, the penalty for failing to withdraw is $10,000, plus you'll owe $5,600 in federal income tax on the distribution.

Dispel These 6 Common Myths About Medicare

Medicare is one of the most critical elements of health care for senior citizens in this country. It's also one of the most misunderstood. A number of myths about Medicare have proliferated, costing countless enrollees both time and money. Here are six myths you might be swayed by and the reality about them:

Myth #1: You must be retired to apply for Medicare.

Reality: You can sign up for Medicare at age 65 regardless of whether you're still working or are already retired. And even though many people lump together Medicare and Social Security, the full retirement age (FRA) for receiving Social Security retiree benefits—currently 66 for most people but gradually rising to 67—has nothing to do with Medicare eligibility. But you can be penalized for applying late for Medicare, so sign up as soon as you reach age 65.

Myth #2: You won't qualify for any Medicare assistance if you haven't worked long enough.

Reality: It's true that you must have at least 40 work credits to qualify for Medicare Part A (hospital insurance). But there's no such requirement for Part B (physician services, outpatient care, and medical equipment and supplies) or Part D (prescription drugs). You're eligible for these programs if you are at least age 65, are a U.S. citizen or have been a legal resident in the U.S. for the past five years, and you submit a valid application. In addition, even if you haven't worked enough to earn 40 credits, you still may qualify for Part A based on your spouse's work record or you could choose to pay the premiums to get Part A coverage.

Myth #3: Medicare Part B costs the same no matter when you apply.

Reality: If you fail to sign up when you reach age 65, you will pay more for the Part B program when you do apply, and your coverage may be delayed. The extra cost comes in the form of surcharges on your premiums for all future years. If you're continuing non-Medicare health insurance past age 65 while still employed, or if you are covered under your spouse's health plan, you can avoid penalties for late Part B enrollment. Otherwise, you're required to enroll during an initial seven-month period that includes the three months before you turn 65, the month you reach that age, and the three months after that.

Myth #4: You don't need Medicare Part B because you have COBRA or retiree coverage.

Reality: Although Part B is optional, don't be fooled into thinking that it's useless when you have other coverage. In some cases, coverage under your non-Medicare plan will leave you responsible for high out-of-pocket costs. Under COBRA, you're generally covered for a period of 18 months after retirement, although you usually have to pay the premiums (plus a 2% administrative fee). The deadline for enrolling in Part B following expiration of COBRA coverage is eight months after you stop working. Again, if you fail to do so, you'll be hit with surcharges on your Part B coverage.

Myth #5: You don't need Part D coverage for prescription drug costs because you don't take any medicines regularly.

Reality: This would be true only if you manage to go through the rest of your life without needing any prescriptions drugs. But that's unlikely, and it makes sense to safeguard yourself from exorbitant costs that easily could reach hundreds or thousands of dollars a month if you fall ill. Like other forms of insurance, Part D protects you against future events that may happen. If you wait to apply for Part D until it's an emergency, you could be assessed permanent penalties for applying late. Part D also can work in conjunction with drug coverage under other plans.

Myth #6: You can sign up for Medicare only during the annual "open enrollment" period.

Reality: This is a principal misconception about Medicare. The annual open enrollment period—from October 15 to December 7—is an opportunity for those already covered by Medicare to change their coverage. It doesn't apply to newcomers, whose time to enroll is based on their birthdays or the end of coverage through their employers or their spouses' employers. If you miss out, you're subject to permanent penalties and delayed coverage.

Don't be guided by what you think you know about Medicare. Get all the facts you need to make informed decisions. ●

If you postpone your first RMD until the following year, you'll have to take two RMDs in that year. If you remain in the same tax bracket, that will double the tax you owe, or the extra payment may push you into a higher tax bracket. Going back to our example of an annual $20,000 RMD, you'll have to take two RMDs for a total of $40,000 in the following year. Suppose that $10,000 of the extra amount is taxed at the 33% rate. Your total tax bill on RMDs for that year comes to a whopping $11,700 (28% x $30,000 + $10,000 x 33%).

Furthermore, doubling up on RMDs increases the possibility you'll have to pay the federal surtax on "net investment income," and it could hike your state income tax liability as well.

As you approach your RBD, consider your options. In many cases, you'll be better off taking your first RMD in the year in which you turn age 70½, rather than the following year. ●

What's The Truth About Probate?

Have you heard horror stories from families that had to suffer through costly, protracted probate proceedings after a relative dies? The possibility is very real, especially if a will is contested. Yet while it might turn into a nightmare, sometimes probate works like a dream. Before you take drastic steps to avoid probate, it's important to know what it's likely to involve.

The first thing to know is that laws concerning probate vary from state to state. In some states, the process may be quick, while in others it's likely to take a while.

Probate is the court-supervised process of distributing the assets of someone who has died, according to that person's will. Even when there's no will, however, assets usually still have to go through probate. Among the exceptions are life insurance proceeds, which normally can go to designated beneficiaries without passing through probate.

If there's a will and an executor, that person usually handles the probate process. When there's no will, the probate court will assign someone to assume those responsibilities. The person representing the person who has died will tally up and list the assets; pay outstanding debts, bills, taxes, and fees; and distribute the assets to beneficiaries according to prevailing laws. It may be helpful to hire an attorney to assist a court-appointed representative.

Probate proceedings are open to the general public. And even if an estate is relatively simple, probate can eat up time and money, perhaps delaying the distribution of assets that family members are counting on. And the last thing grieving family members are likely to want is to be caught up in interminable meetings and legal wrangling.

One way to avoid the hassles of probate is to establish a living trust and transfer assets into it. The contents of a living trust don't have to go through probate, and the amounts and recipients of bequests remain private.

Yet in some states, probate can work to a family's benefit, especially if an estate is relatively small or someone has died without a will. State law can lay out a blueprint for ensuring that the right people receive the property. In addition, it may be better for the family to have the estate bear the cost of the probate process. The laws in some states include provisions for a relatively fast, inexpensive resolution to probate that may be preferable to using a living trust or other complex arrangements.

Your financial advisor and your attorney can explain the laws in your state and help you decide how to proceed. ●

Retirement Mistakes To Avoid

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pretend that the information they're seeking is crucial. Be very careful about working with anyone you don't know personally.

Mistake 7. Continuing to support your adult children. No matter how old you are, you never stop being a parent. Nevertheless, there comes a point when you must realize that you're living on a fixed income and can't support your children in the same manner as you could during your peak earning years. Worry about paying your own expenses first. Then, if there are assets left over, you can follow your parental inclinations.

Mistake 8. Underestimating health-care costs. Just because you're eligible to receive Medicare at age 65 doesn't mean all of your expenses will be paid. You'll probably need other coverage to supplement Medicare, and if you or your spouse encounter serious health issues, you could run up extremely high costs for care in a nursing home or care in your home. Long-term care insurance, when purchased early enough, can provide affordable protection. Alternatively, you might need to set aside funds to pay for potential care expenses.

Mistake 9. Leaving work too soon. Sure, some people would like to call it quits as early as possible, but it's important to be realistic. Go back to your budget and consider it in terms of how long you're likely to live. Although it may not be your first choice, the option of working for a year or two longer could help in two ways, adding to your nest egg and shortening the length of time you'll need it to fund retirement expenses. Coordinate this decision with your choices for Social Security benefits.

Mistake 10. Not seeking professional guidance. Instead of trying to do it all on your own, or relying on the advice of friends or family, sit down with your financial adviser to map out a plan. This last step may help you avoid many of the other mistakes and improve your chances of a comfortable retirement. ●

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