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Retirement Planning Mishaps

By TOM LAURICELLA

We all make mistakes. The key, of course, is catching them early and correcting them before the damage is irreversible.

Retirement planning, with all its moving parts -- finances, families, health care and legal issues -- presents lots of opportunities to get things wrong.



Marc Rosenthal

With that in mind, we asked some pros to talk about the more common mistakes they see these days from clients walking in the door.

1 Misreading Bonds

Lawrence Glazer, at Mayflower Advisors in Boston, meets with retirees who are hesitant to own stocks because they don't want to lose money. But they don't have the same concerns about bonds.

"It's a fallacy to think you can't lose money in bonds," he says.

A bond is basically a loan to an issuer who promises to pay interest on the loan, and ultimately return the principal to investors. One risk is credit risk -- that the bond issuer won't make its interest payments, or even be able to return all the borrowed money.

As investors in Lehman Brothers debt found out last year, outside of government-backed debt, defaults can and do happen.

A more common risk is that bond prices fall, most commonly as interest rates rise. The degree to which bond prices rise or fall depends not just on the kind of bond but also on the maturity.

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Longer-term bonds are generally more prone to price swings than short-term debt.

With interest rates so low these days -- a U.S. Treasury two-year note yields just 0.7% -- many investors are stretching for higher yields on debt with longer maturities and greater credit risk, such as junk bonds.

In a rising-rate environment, losses on even "safe" debt such as U.S. Treasuries "may come as a shock to investors," says Mr. Glazer.

2 Overspending

"People show up, in their 50s, with no retirement plan and \$500,000 saved up and think they are going to retire and spend \$5,000 per month," says Ronald Myers, a financial planner in Fort Lauderdale, Fla. But even if they earn 8% a year on their investments, at that rate they would run out of money in 10 years.

Part of the equation is having a realistic spending budget and matching that with a sustainable withdrawal rate. Most financial advisers recommend a 4% annual withdrawal rate.

But Mr. Myers says retirees often don't factor in two other variables. The first is inflation. "At a 4% inflation rate, your expenses are going to be double in 20 years," he notes. Medical costs -- a big expense for retirees -- are rising much faster than the overall rate of inflation.

Second, retirees often don't allow cushions for unexpected big expenses or hefty investment losses. "You'd better understand what's going to happen if your accounts go down in value," Mr. Myers says, "and whether you're going to be able to adjust on the fly."

3 Forgetting Names

A big concern for many retirees is ensuring that when they die or are incapacitated their property and savings go to the intended recipients and that decisions are in responsible hands. That means keeping a will, health-care proxy and the beneficiaries on retirement accounts and

insurance policies up to date.

But many people wrongly assume that a will takes care of all those things, says New York attorney Philip Bouklas. In fact, the laws and regulations are much more complicated. For example, parents will often add one child to their bank or investment accounts for convenience. But irrespective of what it says in a will, when the parent dies the account passes to just the child whose name is on the account.

Another common misstep Mr. Bouklas sees is not naming a beneficiary on a retirement account.

When the account holder dies without a designated beneficiary, the account is distributed to the estate and passed on according to the will. But to do so, the estate has to take the distribution from the account in a lump sum and pay income taxes. That's less beneficial to the heirs. If they were named as beneficiaries, heirs would be able to draw down the account slowly over their lifetime.

4 Failing to Talk

"People don't like to talk about their own mortality and their own infirmities," says Bernard Krooks, a New York attorney who specializes in elder law. "I have a bunch of clients who say they're not going to die," he jokes.

It's not just what will happen in the event of death that families should discuss, but also long-term health-care plans. People often assume that they'll have plenty of time to make arrangements for long-term care or discuss care-giving plans with their children. But a stroke or accident can happen at any time.

These discussions should even include unpleasant conversations, such as a parent explaining to a child why a sibling is getting a bigger share of an inheritance. It may not be an easy conversation, "but it's less likely to result in problems after the fact," says Mr. Krooks.

Write to askencore@wsj.com

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