5 Mistakes Retirees Make - Transcript

Tom Mullooly: In episode 151, we're going to cover some of the biggest mistakes that retirees make. This is a good one. Stick around.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, and this is episode number 151. That's 151. Thanks for tuning in.

There was an article in the Wall Street Journal written by Cheryl Winokur Munk, who's a writer here in New Jersey, talking about the biggest mistakes that retirees make. I don't necessarily know that these are the biggest mistakes, but I will say after doing this for over 30 years, these are really common mistakes and you think I'll never make those mistakes. People do, year after year after year, so let's get right into it.

The first one listed in the article was investing too conservatively. I can certainly vouch for this. When, years ago when rates were really higher than they are now, I would suggest to retired folks that they buy a 20 year or a 25 year bond and people would laugh at me. They would laugh, 20 years I'll be dead. I won't even be around for that. But what they're, they're looking at, hey, what can I take out of the bank and take it with me? What I'm trying to do is find something where we can maximize your income and that is the whole idea when you are in retirement. Sometimes you have to buy longer term investments even though you're 75 years old, you may be putting money into an investment that won't come due until long after you're gone, but it gets you the highest income now.

We deal with a lot of folks who have jobs with municipalities, they have civil service jobs and they can retire after 20 years or in some cases, 25 years, but when they're retiring, they're retiring at age 48, 49, 50 and the call will go something like this, "Hey Tom, I'm going to retire this year. Don't you think I should be getting more conservative with our investments?" And we have their information up on the screen when we're talking to them anyway, but I'll ask, "How old are you?" "I'm going to be 48 when I'm retired." And I remind them, look buddy, we have to manage this money for, it's got to last you for the next 35, 40 years.

We're not slowing down at all when you're 48 years old. In fact, we're stepping on the gas. Enough about mistake number one, investing too conservatively.

Number two, spending mishaps. We've had situations over the years where people have decided to retire and a month or two later we get a phone call out of the blue, hey I've been thinking, I'm going to pay off my mortgage. You really want to do that? Let me remind folks that are watching this video, if you have a mortgage and the rate on the mortgage is 5% or less, historically, you have a very, very good rate on your borrowings, so some people quibble over whether I'm getting three and seven eighths or 4%, you're under five. You're doing just fine with that. Some folks go out and they splurge like crazy their first year or two of retirement. There was a story shared in this article in the Wall Street Journal that these folks went on an African Safari, spent $20,000. They loved it so much.

They booked another one when they came back. That kind of changed their plans in terms of what they were going to spend each year.

Now, you can't be too strict. You're not going to live on peanut butter and jelly but I think the main thing is, you want to avoid these unplanned expenses. The unplanned is the word that you really got to zoom in on. It's, there's nothing wrong with spending some of this money. You worked your whole life for it.

Number three, that mistakes that retirees make, underestimating their expenses. This is the opposite side of this. It's a very good practice and we recommend it often you should be tracking your expenses. Meaning, write it down. That means actually picking up a pen or a pencil and writing it down. How much money you spend on a weekly or a monthly basis. Nobody does this. Nobody does it. People say, "Oh, I'm going to write it down on a computer. Oh, I have Quicken. Or, oh, I just go through my bank statements."

Write it down. There's something happens between your brain and your hand when you're actually writing stuff down. Write down how much you're spending for the last 12 months that you're pulling in a salary. If you can do two years, even three years even better. But get a grip on how much things cost because people have a warped reality that bubble gum still cost 5 cents. It doesn't. Things like new cars cost a lot of money. New, brand new car, if you're looking at something nice, it's going to be 40 grand, 50 grand. That was a really expensive wedding 25 years ago. New Furniture, expensive. If you're thinking about putting money away for your grandchildren's college education, you can plan for these things, but you just can't wake up one day and decide that you're going to do this. You're going to be ripping up the script.

The next mistake that retirees make, unnecessary tax expenses, this is where working with a financial planner can really help out. Is it better to pay, take money out of a regular taxable brokerage account when you retired? Or maybe I should be taking money out of my retirement account before I get social security. You need to sit down with someone and actually figure this stuff out. Should you be considering doing a conversion to a Roth IRA? These are points that a financial planner can help you with. It's stuff that we do here at the office every day of the week.

The last reason in the article that they say are mistakes that retirees make, falling for an investment pitch that sounds too good to be true. That's universal. It doesn't, that's not just limited to retirees. Over the weekend, a TV commercial came on and they were touting this free book. If you go to this website or call this number, we'll send you our free book and the title was Do's and Don'ts of Annuities. Folks, if you've had a conversation with us, you know how we feel about annuities. Just remember something, when they want you to call a phone number or go to a website and sign up for something that's for free, you are the object.

They want your information so they can market to you. They want your name. And I actually thought of just contacting them so I could get the book Do's and Don'ts of Annuities because I think I should write a book and just call it The Don'ts of Annuities. But that's, we'll save that for another video.

Thanks for tuning into episode 151. We'll catch you next time.