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Retirement regrets: Costly mistakes to avoid

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If you talk to enough baby boomers or new retirees about what they wish they could do differently, chances are many of them would mention a retirement plan do-over of some kind.

And even if you've managed to build up a sizable nest egg, executing on the right way to withdraw those funds is just as important as saving. Crucial mistakes along the way can jeopardize the money you've worked so hard to save up.

As a certified estate planner, Jean Ann Dorrell helps retirees revise their financial and legal plans. In the process, she repeatedly comes across clients who have similar money regrets.

Below are some of the costly mistakes Dorrell says you can avoid:

Regret #1: Relying on your pension

Two summers ago, I think I got about 50 phone calls from clients who expected that they would continue to get a pension from [their company], and all of a sudden they were getting called to a retiree meeting where they were being told: "Here, we're going to just cash you out," or, "You can continue with an annuity with this company that we've partnered with, but we're not going to do it anymore." Others have said, "It's your responsibility to invest it or put an income stream to yourself from it."

My advice for people who are left with a bucket of money is to invest it safely. The last thing you want to do is put that money in the stock market and risk it – that may mean back to work you go! And who wants to do that in their 60s?

I would suggest safe bank-insured investments like CDs or money markets. If you can stomach a longer-term investment for a better return, then utilizing a fixed index annuity with an income rider to guarantee an income for life, similar to a pension, is recommended.

Regret #2: Having too many accounts

The most I've seen is 16 different retirement accounts at different institutions. It becomes overwhelming. So while they're trying to have this nest egg, what ends up happening is they have a bunch of scrambled eggs. They have things all over the place, and they laugh when we talk about this, but it is a source of concern because they just tend to not open those statements.

You can use one financial institution as the umbrella for all of your financial accounts and you can maintain diversity in each account at the brokerage firm or at the financial institution, so that when you get your statement, all of your accounts show up on one statement. You can see the holdings, you can change them, and still be diverse, but simplify and get one statement instead of 16.

Regret #3: Borrowing from yourself

Another retirement regret I often see is borrowing from their retirement account to fund lavish purchases: maybe a second home or a child's college education. I hear people say, "I want my kids to go to an Ivy League school and I can't pay for it, so I'm going to cash in my 401(k)." You don't want to do that. Your kids should be able to get student loans for that.

The retirement regret here is you're going to have taxes, penalties, things you wouldn't have thought through. You may have to work longer. You're going to see your peers retiring at 55. Maybe now you have to work until [you are] 65, or you have less money in the bank.

Regret #4: Not revising your financial plan

When you hit retirement, you need to have a financial professional, a legal professional, and an accountant who are working together to make sure you're maximizing your plan. Retirees are often working with one person for their financial advice, a different professional for their legal advice, and a different professional for their taxes. Let [your advisors] know you would like to include all three and often you can get them to work together that way.

You want to have growth in retirement, but it's more important to make sure you don't lose those gains to taxes. You don't want to make 20% gains just to have your Social Security taxed at the max just because you had it in the wrong type of investment where it created an adverse effect on your tax return. For example, a capital gain on certain investments is reported on your income tax return, and it can create a larger tax on your Social Security, creating less income. Growth on deferred investments (like savings bonds or fixed annuities) is not reportable on your income tax return until you draw out the gains.

It's also important that you're putting beneficiaries on those accounts in such a way that they are not lost should you pass away. As we age, we need to plan for our mortality and plan for our income taxes to pass onto that next generation in the most tax-privileged fashion possible. You can't do that without all three facets working together.

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