How Your Ego Is Sabotaging Your Retirement

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As diligent as you have been about saving for retirement, your ego might have been quietly working against you the whole time. Even the best-laid plans fail, and your retirement plan is no exception. Here are six ways your ego is rearing its ugly head and how you can regain control of your financial plan before you retire.

1. Unrealistic Expectations

Many newly retired people find that their reality doesn't live up to the grandiose dreams they had for their retirement. As you save for retirement, you should periodically give yourself a reality check.

Statistics show that you should lower your expectations and save more aggressively. According to a survey conducted by the Insured Retirement Institute, only 27 percent of baby boomers are confident that they will have enough money to last through their retirement (which is down from 33 percent a year ago).

If you find yourself part of this 27 percent, you will want to ensure that your confidence is not unfounded.

One way to make sure that you are adequately prepared is to calculate your projected expenses -- the costs to maintain your current home, transportation, health care, and other predictable expenses -- and determine whether any changes to your current budget are necessary.

Don't let overconfidence wrongly convince you that you don't need to downsize your lifestyle. Few people have the ability to replace 100 percent of their preretirement income, but by eliminating nonessential expenses and saving for monthly bills and emergencies, your likelihood of building a substantial nest egg is greatly increased.

2. Not Making Time for Tough Conversations

Doting on your grandchildren is easy. Having an honest conversation with your adult children about what your financial transition into retirement will really look like can be difficult.

It's hard to go from raising your children to discussing finances with them -- and perhaps even heeding their advice -- but it helps to be candid with them. If your situation looks bleak, they might be able to help.

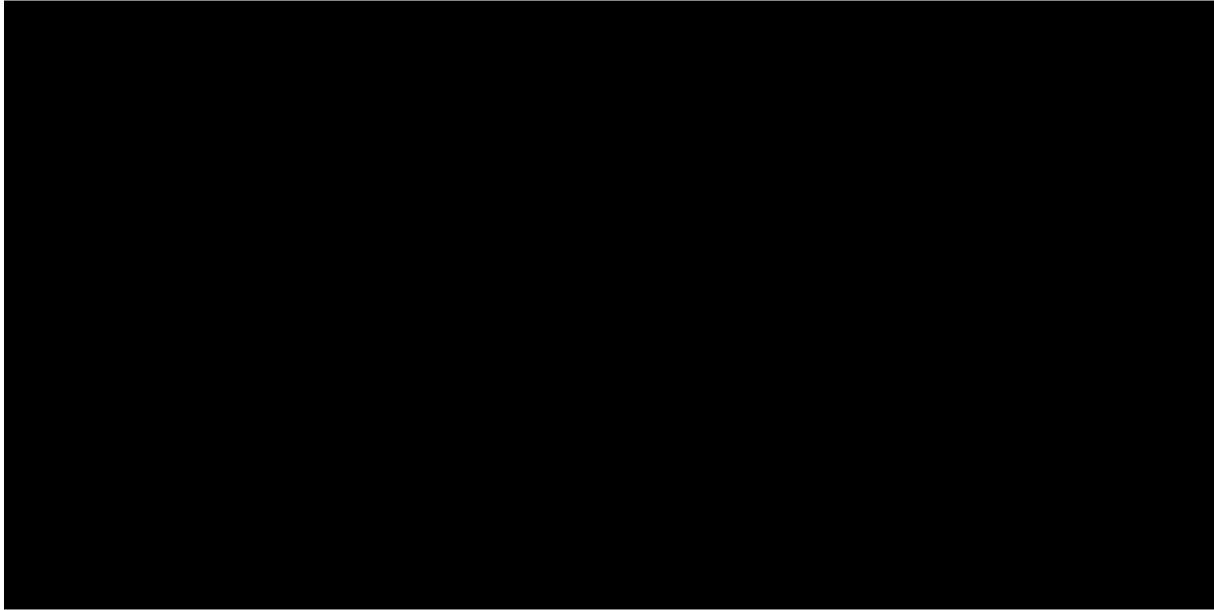
According to the Pew Research Center, nearly 23 percent of adults with retired parents contributed some sort of financial assistance during 2012, and 72 percent of those adult children said their contributions were for ongoing expenses. Regardless of your comfort level with your retirement account balances or your and your family's busy schedules, you need to make these conversations a priority. In the event that you're not as ready for retirement as you think, or the market unexpectedly goes south, you might be faced with looking to your adult children for some form of support, whether it's financial or logistical.

3. Fear of Diversification

Just because you're heading toward retirement doesn't mean you have to settle for the same low-risk investments that everyone else seems to be chasing since the recent market downturn. You also don't want to expose yourself to unwarranted risks that you won't have time to recover from, however. A 2015 report from Fidelity Investments showed that baby boomers are keeping too much of their assets in the stock market -- in fact, 10 percent of people ages 55 to 59 have all of their 401k assets in stocks.

To maintain a comfortable standard of living and maximize your retirement benefits, it is beneficial to seek out low-cost investments that offer steady returns while minimizing short-term risks. Consult a financial advisor about the benefits of diversifying beyond traditional stocks and bonds. Options like index funds, exchange-traded funds and blue-chip dividend stocks can provide adequate returns along with favorable expense and fee structures that make them viable alternatives for boomers.

How to Set Up an Automatic IRA



4. Not Seeking Advice

Seeking advice from a trusted financial advisor during the accumulation phase of retirement planning is common, but the time people spend consulting an advisor often diminishes over time.

"It's hard enough for advisors, who typically have teams of people dedicated specifically to the field of wealth management, to stay on top of everything let alone the average individual investor," said John Fowler, certified financial planner and wealth manager with McElhenny Sheffield Capital Management in Dallas.

Losses in the wake of the recent recession have many boomers convinced that it's more beneficial to their financial future to go it alone. The Transamerica Center for Retirement Studies reports that only 40 percent of baby boomer workers who are saving and investing for retirement use a professional financial advisor to help them manage their investments.

"When it comes to financial planning, Wolters Kluwer estimates that there are approximately 64,708 pages of tax code, case precedents, and guidance rulings that could affect the outcome of how a client plans for their retirement," added Fowler. "In addition to this, Social Security, a primary source of income for many retirees, has more than 2,728 core rules."

Don't think that by seeking retirement advice from a financial professional you've somehow failed or given up control. You are still in the driver's seat of your financial future, and a review from an advisor is just one way to catch any missed opportunities or mistakes you might have missed.

5. Retiring Prematurely

Once you've retired, you are no longer trading your time for dollars. If you retire before you have enough money saved to support yourself, then you face a difficult retirement. Your retirement plan needs to factor in all of your planned and potential emergency expenses; it can't simply be based on the age at which you picture yourself retiring.

A study released by the Employee Benefit Research Institute showed that nearly 57 percent of early boomers are on track to meet their retirements needs. In the cases in which early boomers were ill prepared, however, a staggering average shortfall of $71,299 was projected per individual in a married household.

Working longer can significantly increase your retirement income. By working just a few years longer, you can contribute more toward retirement savings, allow your savings to earn more compound interest and take advantage of higher Social Security benefits -- up to 8 percent in some cases, according to the Social Security Administration's website.

Even a part-time job or reduced workweek at your current job could help you further pad your nest egg. If the idea of sticking with your current job makes you cringe, keep an open mind; you might be able to use your professional skills in a new way or turn your talents or a hobby into a new revenue stream.

6. Overlooking Free Retirement Money

Most employers require workers to save between 4 percent and 6 percent of pay in a retirement account to get the maximum employer contribution. Whatever the employer match, take your company up on it -- it's free money.

"One thing that often trips people up is the notion that they are better off investing their money outside of their employer retirement plans," said Kerry Hannon, an author and retirement expert. "Younger workers, especially in their 20s and 30s, often have the bravado that they can pick stocks or investments on their own that can easily trounce the returns of a mutual fund offering in their employer's 401k, for instance."

"I always recommend to workers of all ages to take advantage of your employer's 401k or similar retirement plan," added Hannon. "If possible, invest enough in your 401k to qualify for the full match."

Don't shoot yourself in the foot by trying to handle your entire retirement plan on your own. Preparing for retirement can be emotionally and financially draining. Utilize resources through your employer, your family or a professional financial advisor to help keep you on the right track and help you spot ways to improve your plan so that you can support your desired lifestyle in retirement.

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