

# 6 Financial Planning Mistakes to Avoid

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Dealing with money is difficult. Compound interest, complex interest, addition, subtraction, decimals and dollar signs. The stakes are high, too, when it comes to financial planning for a retirement. Retirement is a period in life when we become reliant on our past self and when financial mistakes and bad habits that we've been able to get away with for years will fully manifest themselves. Although it's too late to turn back the clock and do things differently now, you can avoid these planning mistakes by taking a moment to arm yourself with information instead.

Here are six common financial planning mistakes to avoid:

## 1. Forgetting Inflation

Inflation means that your money is gradually worth less over time. In other words, prices rise. Over the last 20 years, average annual inflation has been approximately 2.55%. The safest investments like a savings account or government bonds will often deliver returns at a rate lower than inflation. Sometimes modest risk is necessary to make sure your savings aren't depleted by inflation.

## 2. Not Planning for Long-Term Care Costs

Most of us are probably hoping to spend our final years at home and in good health. But like all phases of life, our autumn years seldom go exactly as hoped or planned. Whether we find the thought pleasant or not, most of us will eventually incur significant long-term care costs as we age according to a recent study. The old saying, "Hope for the best but plan for the worst," holds especially true for retirement and long-term care planning.

## 3. Succumbing to Scams

Fraudsters scam more than a million American seniors each year, costing them approximately \$2.6 billion annually. Seniors should stay informed about tactics and strategies used by swindlers, and beware of offers that sound too good to be true. For more tips about senior fraud prevention, see this detailed article on our website.

## 4. Misunderstanding Medicare

Many retirees believe that Medicare covers long-term care, but it doesn't. This false assumption can have truly dire consequences. Seniors who have counted on Medicare to pay for assisted living care are vulnerable to being financially and emotionally devastated when care needs arise. Medicare enrollees should understand that Medicare will not help whatsoever if long-term care is required at a nursing home, assisted living community, or at home. The government program that can pay for long-term care in some circumstances is Medicaid rather than Medicare. However, Medicaid is only available to seniors who have already spent nearly all their assets on care, and is generally considered a last resort option.

## 5. Over-reliance on Social Security

Social Security, instituted as part of FDR's New Deal in 1935, is crucial to keeping many seniors out of poverty. But do not expect your benefit to provide for a leisurely retirement, let alone to cover long-term care costs. According to the Social Security Administration the average benefit for a retired worker is about \$1,230, while a study by Genworth Financial found that the median cost of a 1-bedroom apartment at an assisted living community is \$3,300. What's more, some budget-hawks have been eyeing Social Security for privatization and possible benefits cuts, so its future isn't entirely clear. If at all possible, try to make sure that you're not exclusively dependent on Social Security income by contributing to an additional retirement program, or by retiring with sufficient savings.

## **6. Having an Outdated Estate Plan**

It's common for seniors to draft a will and then forget about it. This mistake often means that seniors' estates go to the wrong people, or that their families incur extra legal fees. Revisit your will and other estate planning measures each year. This reassessment is especially important if any of beneficiaries have passed away, become divorced or had children. Similarly, if the estate's executor passes away, revisions to the will are in order.