Retire and Stay Retired:

Four Investment Mistakes That Can Send You Back to Work

If you've been a disciplined saver and taken advantage of tax-deferred plans, you've done a lot to get ready for retirement. And if you've been managing your accounts on your own and investing in low-cost funds over the last decade, you could be feeling especially good about the road ahead.

However, even the most dedicated investors make some common mistakes that could set their retirement plans back.

1. Failing to diversify

Establishing a well-diversified portfolio with an appropriate mix of stocks, bonds, and other asset classes is key to meeting your investment goals — that's no surprise. But asset allocation is not a one-time exercise: It takes work to stay on top of your portfolio to ensure it's serving you as intended.

- **In the short-to-intermediate term**
  Market dynamics will change your asset composition as some asset classes outperform others. For example, a long run-up in the stock market can result in an allocation to equities that goes well beyond your original target. While it's tempting to stay with your winners, your portfolio can be exposed to undue risk. Rebalancing to restore your investment mix to your original target allocation is an important step toward achieving your goals. It requires you to sell investments from the asset class that has performed well and buy investments in the asset classes that have been out of favor but now have upside potential. Unfortunately, many investors fail to rebalance regularly, and that can lead to disappointing outcomes.
- **Over the long term**
  An investor's target asset allocation isn't set in stone: It changes with the passage of time and as individual circumstances evolve. Younger investors typically have a large portion of their assets in aggressive equity investments, including small- and micro-cap stocks and frontier market equities. They believe that they have plenty of time to recoup losses and want to tap into the opportunity for higher long-term returns. Older investors, on the other hand, often structure their portfolios to manage risk and reduce volatility during market ups and downs, which frequently means a greater allocation to high-quality fixed income. In practice, however, establishing a target allocation is a nuanced exercise.

> While an aggressive strategy may make sense for a younger investor, being too aggressive has drawbacks. It reduces the compounding value of a portfolio and may sacrifice the opportunity for rebalancing to capture gains and buy other investments when values are low.

Americans today can look forward to long retirements. As they approach their retirement plan, they need to consider the length of time their money needs to work for them. Pursuing ultra-conservative investment strategies that don't include an allocation to equity for growth purposes could result in portfolios that fail to keep up with spending needs and inflation.

Another diversification mistake is holding a large portion of your retirement assets in your employer's stock. It's natural to want to invest in your company, especially if you're optimistic about its prospects. But you'd be depriving yourself of the advantages of a diversified portfolio. You already have a risk with your employer — you could lose your job if your company struggles — and holding a large concentration of its stock in your 401(k) doubles that exposure.

It takes effort and research to monitor your asset allocation and make well-informed decisions. Many investors just don't have the time or may not be certain about what to do. As a result, they subject themselves to avoidable risks.

2. Too many investment accounts in too many places

According to US Bureau of Labor statistics, baby boomers hold approximately 12 jobs in their lifetimes.[1] As a result, they may have 401(k) accounts scattered across several employers. That doesn't count any bank savings and brokerage accounts an individual may have.

It's hard to manage your investments as a unified whole if you have assets in several places. You could be overexposed to certain investments or asset classes, which may be hard to see across multiple portfolios. You could also be missing significant opportunities to minimize your tax bill.

Consolidating your retirement balances into fewer accounts also has advantages from an estate planning perspective. Each account identifies the beneficiaries that inherit the money after you pass away. Having fewer accounts to watch over makes it more likely that you'll keep the designations current and be able to coordinate your wishes and legacy with other parts of your estate plan.

3. Not working with an investment coach

When you make important life decisions, it's only natural that you turn to an expert for advice — going it alone has too much risk. When you make important life decisions, it's only natural to seek input from trusted sources — you want to equip yourself with all the tools you need to be successful. You know that your retirement is too important to take a DIY approach. Yet you also want to avoid getting input from too many sources, which can lead to recommendations that are confusing and contradictory.

As we noted earlier, diversification is an essential ingredient in managing investments. But diversifying by spreading your retirement money across multiple institutions and getting investment advice from several different sources can be a big problem. It can make it more challenging to understand how your entire portfolio is performing and to implement a coherent, unified strategy to meet your current and future needs.

If you're using several advisors, ask yourself these questions:

- How are you overseeing the various investment strategies to ensure coordination and to avoid duplication and overexposure?
- How do you gain a complete picture of your portfolio?
- Are you confident that you are optimizing your tax situation if no one has a consolidated view of your situation?
- Are you paying too much in fees by having balances spread across several investment providers?

Consolidating your retirement investments with a single provider can offer advantages over using multiple financial service companies. But even if you choose to keep some of your investments with other advisors or institutions, you can gain significant benefits when you work with a coach. That trusted advisor can take all of your holdings into consideration to give you advice on your entire portfolio, ensuring the decisions made are in your best interests. Importantly, a coach can guide you through difficult markets and help you stay focused on your long-term goals and strategy.

Ultimately, it's critical to work with an advisor who takes a comprehensive view of your portfolio and makes sure it stays on track. With a combination of tools and advice, you can avoid these mistakes to ensure you can retire — and stay retired.

4. Not considering inflation, rising healthcare expenses, and increased lifestyle spending

An age-old rule of thumb is that retirees spend about 70% of their pre-retirement income. It's true that you'll no longer be spending on things like a business wardrobe, commuting, and meals. You may even have paid off your mortgage. But that doesn't mean there won't be pressures on your household budget when you're retired.

For starters, consider inflation. An annual inflation rate of 2% seems negligible, especially for those of us who remember double-digit rates in the late '70s and early '80s. Still, even a 2% inflation rate can have a dramatic effect on your spending, as the table below shows:

Impact of 2% Annual Inflation on Monthly Expenses

Current Monthly Expenses	15 Years Later	30 Years Later
$3,000	$ 4,038	$ 5,434
$5,000	$ 6,729	$ 9,057
$7,000	$ 9,421	$12,680
$9,000	$12,113	$16,302

For retirees, the stress on household budgets may be even greater as a result of healthcare spending. According to projections by the Centers for Medicare and Medicare Services (www.cms.gov), national healthcare spending is expected to grow at an average rate of 5.5% per year for 2018–27, well in excess of the expected inflation rate for non-healthcare spending. Older Americans will be especially hard hit, since they will be impacted by increased healthcare utilization as they age as well as rapidly increasing prices for medical services.

The price tag on retirees' healthcare is steep:

- In 2019, a 65-year-old couple in good health will need $387,644 in today's dollars to pay for health-care costs for the remainder of their lives, according to HealthView Services (Why Healthcare Needs to be Part of Retirement Planning). That includes premiums for Medicare Parts B insurance and D prescription drug coverage, costs not covered by Part B, dental insurance and expenses, hearing services, long-term care, and more.
- In the first year of retirement, the couple's total annual premium and out-of-pocket expenses will be $12,286. In twenty years, at age 85, they will need $34,268 to cover these costs, which do not include expenses for long-term care.

And while job-related expenses disappear from your budget when you retire, other expenses may rise as a result of lifestyle changes. You'll have more time to travel and take those vacations you've been putting off. Leisure activities, hobbies, entertainment, gifts to support family members, home renovations, and charitable contributions can also take big bites out of your budget.

Planning for your retirement expenses is essential: If you don't have a realistic understanding of your spending needs, you could be in for a shock down the road.

To learn more, contact a Key Private Bank Advisor or visit key.com/kpb.

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[1]Number of Jobs, Labor Market Experience, and Earnings Growth: Results from a National Longitudinal Survey Summary. U.S. Bureau of Labor Statistics. Published: August 22, 2019. Accessed: November 4, 2019. https://www.bls.gov/news.release/nlsoy.nr0.htm