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Three Mistakes to Avoid in Retirement

Every day, nearly 10,000 Americans retire. All too often, many of them make the same mistakes that can end up tarnishing their golden years. Here are three of the most common errors new retirees make.

Failing to Make a Budget

Without a steady paycheck and a lot of free time on their hands, most retirees pass their time spending money rather than making it. Before you purchase any big-ticket items, consider that you will be sacrificing the future returns on those dollars. In addition, many retirees rely on old retirement adages such as they will need only 70% of their pre-retirement income. Many people find that they need to replace a higher percentage of their income.

Mishandling Social Security

Many people begin collecting Social Security benefits as soon as they are eligible at age 62. Assuming a full-retirement age of 66, by taking benefits early at age 62 you will receive 25% less each month than if you delayed taking your benefits until you are eligible to receive full Social Security benefits. Those who take their benefits early often believe that although they are collecting less each month, they are collecting it for longer, so it all equals out over the long run. But those who delay their benefits until their full retirement age of 66, and live beyond ages 77 to 78, will actually collect more over their lifetimes. Furthermore, married couples can sometimes receive higher combined benefits by structuring when and how each spouse claims their benefits. So be sure to investigate all of your options before you file.

Moving

It's the dream of many Americans to retire in sun-soaked places like Florida or Arizona. While moving to a new locale isn't necessarily a mistake, making a sudden move without adequate preparation is a common error among retirees. Often, they are unprepared for the different climate or lifestyle of their new destination. Moving far away from family and friends can also have an emotional toll. If you are considering making a move when you retire, you might want to make multiple trips to get a real feel for what life will be like.

Establishing Your Retirement Budget

Establishing a realistic budget for your retirement is essential. A good way to start is by categorizing your expenses according to their necessity.

Essential Expenses are necessary for you to maintain an acceptable standard of living such as housing, utilities, food, healthcare, utilities and taxes.

Important Expenses are for maintaining your standard of living but are not absolutely essential. These include clothing, transportation and insurance.

Discretionary Expenses are for things that you want, but don't necessarily need such as travel, hobbies, eating out and gifts.

By defining your expenses based on their importance, you can help ensure that your most basic needs are taken care of first.

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