7 common myths that can ruin your retirement

THE Fiscal TIMES

By **Beth Braverman** May 14, 2015 11:45 AM

Most Americans have long ago come to the conclusion that retirement isn't going to be all travel and tennis. With fewer savings and smaller (if any) pensions, there's an understanding that most retirements now involve some sort of work and a close eye on budgeting.

Planners say that even with that understanding, those 50+ consumers known in the industry as "pre-retirees" still make a number of assumptions about their own retirements that are unrealistic. Confronting those assumptions and adjusting them now, will ensure you're more satisfied once you hit those golden years.

Here are 7 ways that Americans are unrealistic about their retirement plans.

1. You won't really work till you die. Since it's so hard to save enough for retirement, a growing number of pre-retirees plan to just keep on working. More than quarter of workers now say they are going to work past age 70, and 10 percent say they'll never retire, according to a recent study by the Employee Benefits Research Institute. But planners say that unexpected events, such as a change in your or your spouse's health or a company layoff often derail such plans. The median age for retirement in America is still 62, which—despite worker plans--hasn't changed in more than 20 years.

2. Downsizing is easier said than done. Lots of pre-retirees plan on trading in the family home for a condo or apartment and living off of the additional equity. That' a great plan, but in many cases, the savings don't pan out. Retirees tend to sell their older homes for newer apartments with more modern amenities—such units tend to cost more, which eats away at the potential savings.

More than half of pre-retirees don't end up downsizing with their final move, according to a recent report by Merrill Lynch, and 3 in 10 actually buy a larger home. If you really want to cut down on your living costs, consider moving to a cheaper location, where you can get a bigger or newer home for a lower price.

3. You haven't saved enough for healthcare. Average out-of-pocket recurring medical expenses for retirees are around $1,855 per year, not including hospital stays or nursing home care, according to EBRI. Factoring in inflation, and that non-recurring expenses tend to increase with age, that amounts to some $40,000 per year for a 30-year retirement.

A typical couple would need nearly $250,000 on hand to have a 90 percent chance of covering all their medical expenses in retirement. If you don't have that kind of cash set aside, be prepared to cut back on other lifestyle expenses in order to cover those growing bills. Answer a few questions on this health care cost calculator from AARP to get a sense of what your healthcare expenses may look like, and start contributing to an HSA now.

4. Social Security isn't going to be much help. More than a third of Americans who haven't reached retirement age think that Social Security will be a major source of income in their post-work years despite the government program's ongoing funding problems, according to a recent Gallup poll. Currently Social Security provides an average benefit of about $1,260 per month, which is already not enough for most people to live on. If funding problems persist, those checks could shrink or kick in at a later age. "For most people, relying on Social Security just isn't going to get it done," says certified financial planner David Jackson.

The longer you wait to claim benefits, the higher your payment will be. Continuing to delay collecting Social Security after your full retirement age will net you 8 percent more a year.

5. You're going to live longer than you expect. If you're not planning for at least a 30-year retirement, you may run out of money. Men who make it to age 65 have an average life expectancy of 86.6 years, and 65-year-old women will live until an average of 88.8 years, according to the Society of Actuaries. That means that there's a reasonable chance you'll live longer than that, especially if you're in good health and have a family history of longevity. "What happens when you live to be 105 but run out of money at 97," asks Katie Libbe, Allianz Life vice president of consumer insights.

6. It's really hard to cut off your kids. Whether they're victims of a tough economy or they're just old-fashioned mooches, it's increasingly common for adults to rely on financial assistance from their parents well into their 20s and 30s. Part of the problem, planners say, is that Boomers just can't say "no," even when it puts their own retirement security at risk. "Sometimes parents forget that they need to put themselves first," says Kathleen Hastings, a certified financial planner with FBB Capital Partners in Hastings, Md.

Baby boomers with financially independent adult children are more than twice as likely to be retired than peers who are still footing their kids' bills, according to financial research firm Hearts & Wallets.

7. You're underestimating inflation. Even if you're accurately underestimating your costs in retirement, it's difficult for many pre-retirees to accurately gauge the impact inflation will have on those expenses. At an average 3 percent rate, your costs will double every 10 years. Failing to factor that into your savings can have a disastrous impact on your ability to maintain your lifestyle. "You don't notice inflation year-over-year, but it will build up over a 20-year retirement," says James Nichols, head of retirement income and advice strategy for retirement solutions at Voya Financial.