



“Simplifying Your Financial Life...”



Mike F. Moss, LUTCF
Senior Financial Consultant

The Retirement Mindgame

Your outlook may influence your financial outcome.

What kind of retirement do you think you’ll have? Qualitatively speaking, what if the success or failure of your retirement begins with your perception of retirement?

A whole field of study has emerged on the psychology of saving, spending, and investing: behavioral finance. Since retirement saving is a behavior (and since other behaviors influence it), it is worth considering ways to adjust behavior and presumptions to encourage a better retirement.

Delayed gratification or instant gratification? Financially speaking, retiring earlier has its drawbacks and may lead you into the next phase of your life with less income and savings.

If you don’t love what you do for a living, you may see only the downside of working longer rather than the potential boost it could provide to your retirement planning (i.e., claiming Social Security later or tapping retirement account balances later and letting them compound more). If you see work as a daily set of unfulfilling tasks and retirement as an endless Saturday, Saturday will win out, and your mindset will lead you to retire earlier with less money.

On the other hand, if you change your outlook to associate working longer with retiring more comfortably, you may leave work later with a bigger retirement nest egg – and who wouldn’t want that?

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If you don’t earmark 66 or 70 as your retirement year, you can become that much more susceptible to retiring as soon as possible. You’re 62, you can get Social Security; who cares if you get less money than you get at 66 or 70 if it’s available now?

Resist that temptation if you can. While some retirees claim Social Security at age 62 out of necessity, others do out of inclination, perhaps not realizing that inflation pressures and long-term care costs may render that a poor decision in the long run.

Social Security wants you to wait until you reach what it calls Full Retirement Age (FRA) to claim your benefits. For those born after 1942, FRA is 66, 67, or somewhere in between. When you take benefits earlier than that, your monthly benefit payments are reduced by as much as 25%. That reduction is permanent.¹

Some people are misinformed about this. In a 2017 Fidelity Investments poll, 38% of respondents thought the reduction was temporary and that their monthly benefits would suddenly increase when they reached their FRA.²

Setting a target age for retirement – say, 65, 66, or even 70 – before you turn 60 can help mentally encourage you to keep working to that age. Providing your health and employment hold up and you can work longer, patience can lead you to have more Social Security income rather than less.

See if you can increase your savings rate on the way toward retirement. Don't look at it as stripping money out of your present. Look at it as paying yourself first on behalf of your future.

Take a step back from your own experience. For some perspective on what your retirement might be like, consider the lives of others. You undoubtedly know some retirees; think about how their retirements have gone. Who planned well, and who didn't? What happened that was unexpected? Financial professionals and other consultants to retirees can also share input, as they have seen numerous retirements unfold.

Reduce your debt. Rather than assume new consumer debts, which advertisers encourage us to take on, commensurate with salary and career growth, pay down your debts as best you can with the outlook that you are leaving yourself more money for the future (or for unexpected situations).

Save and invest consistently. See if you can increase your savings rate on the way toward retirement. Don't look at it as stripping money out of your present. Look at it as paying yourself first on behalf of your future.

Best Regards,

Mike Moss

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Citations.

1 - gobankingrates.com/investing/mistakes-even-smart-people-make-retirement/ [1/8/18]

2 - fool.com/retirement/2017/12/14/why-do-so-many-people-claim-social-security-at-62.aspx [12/14/17]

1040 S. Commons Pl. Suite 201 • Youngstown, OH. 44514 • Phone: 330.758.7545 • LFScompass.com