Motley Fool's *Rule Your Retirement* Newsletter

6 Ways to Wreck Your Retirement

By Robert Brokamp, CFP
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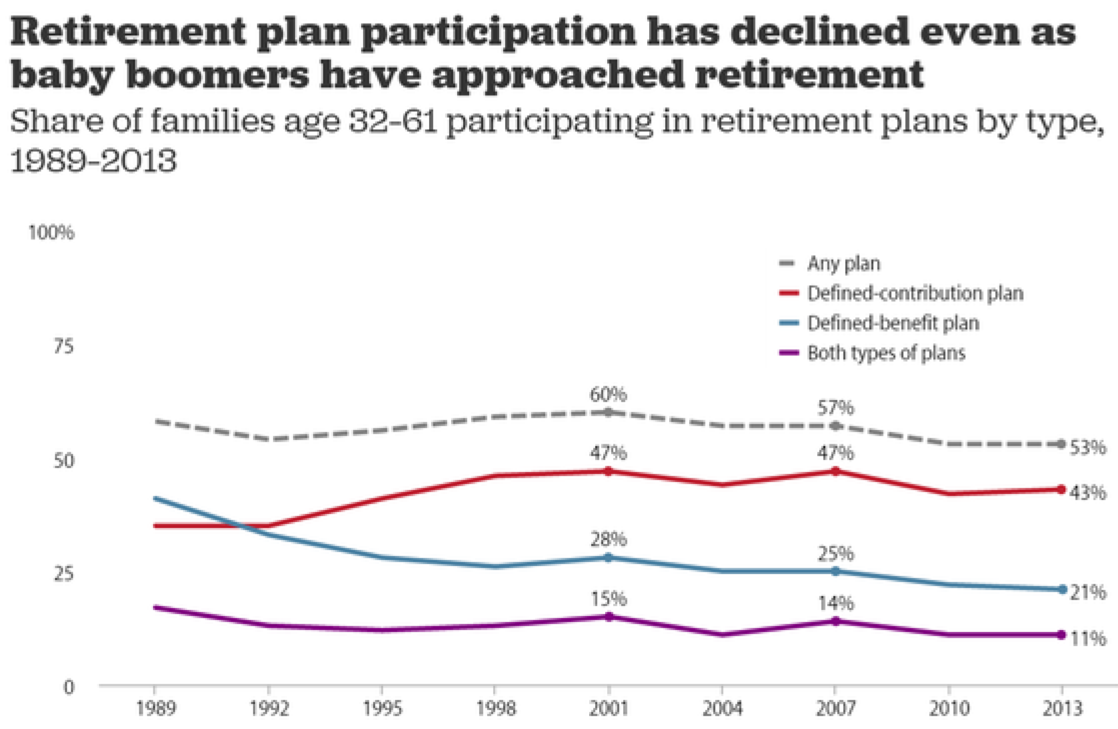
We're closing in on our 12th year of publishing *Rule Your Retirement*, so we've written quite a bit about the steps you can take to bolster your financial independence. But we haven't written too much about what *not* to do. So what you're about to read could be considered the inaugural edition of a whole new publication: *Wreck Your Retirement*!

Here are six things you can do to ensure your financial *dependence*, and that you never rule.

1. Don't Save

Yes, this one is obvious. But it seems not enough Americans have gotten the message that retirement requires savings, since the percentage of workers who are contributing to a retirement plan is declining.



Source: "The State of American Retirement," The Economic Policy Institute

2. Base Your Decisions on Things That Don't Matter

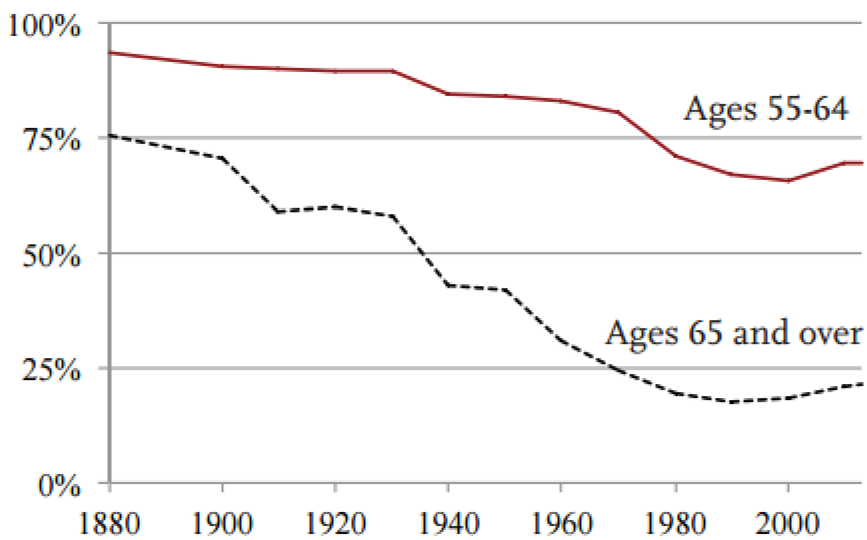
Ask someone why they contribute the amount they do to her or his 401(k), and you'll get answers like:

- "That's how much is matched by my employer."
- "That's the maximum."
- "That's the amount my company decided."
- "I've always heard you should save 10%."

Here's the problem: None of those answers has anything to do with whether an individual -- who has a unique constellation of assets, resources, and goals – is saving too little or too much for retirement.

Then there's the age at which people retire. The chart below shows the change over the past 130-plus years in the percentages of men age 55 and older who are still working, courtesy of the Center for Retirement Research at Boston College:

Figure 1. Workforce Participation Rates of Men, Ages 55-64 and 65 and Over, 1880-2013

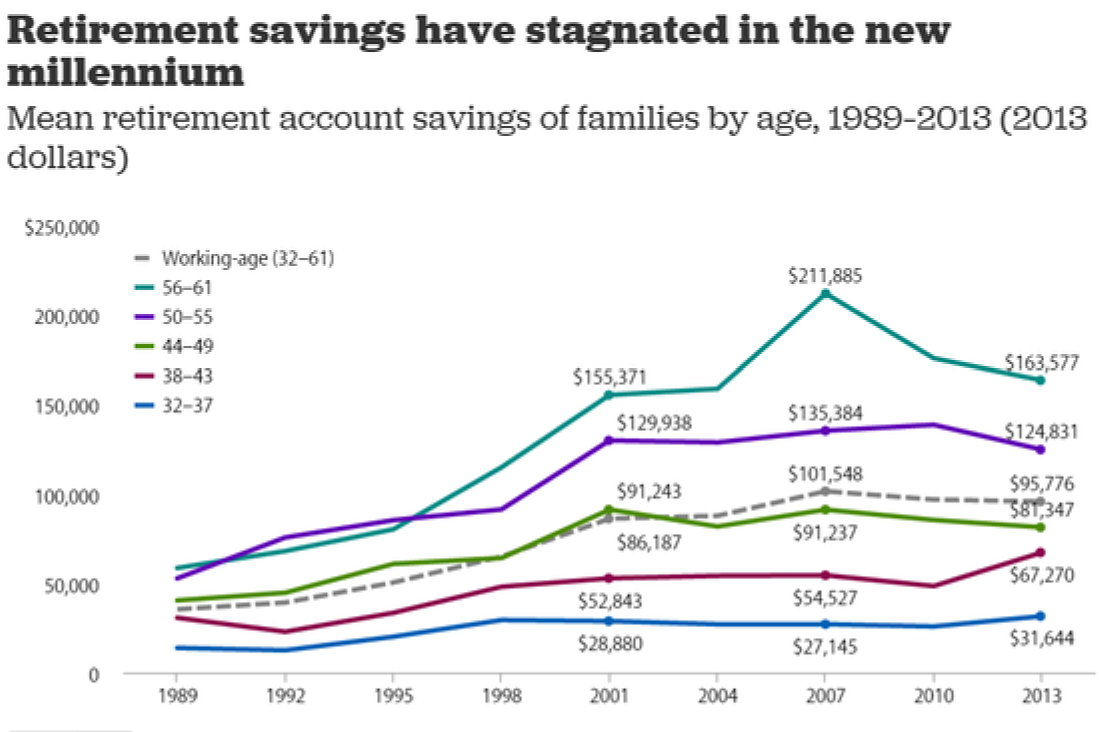


It's quite remarkable: As life expectancy has gotten longer, we've retired sooner. How have we been able to pull this off?

There are many reasons, but it is partially attributable to Social Security, which paid its first retiree benefit check in 1940. Back then, beneficiaries had to wait until age 65. But in 1956, the law was amended so that women could claim benefits as early as 62, and in 1961 the lower claiming age was made available to men. Eligibility ages for many defined-benefit pensions are even younger. Is it any wonder that today the average retirement age is around 63?

But just because someone is eligible for Social Security or a pension doesn't mean they have enough total financial resources to retire, especially since the average annual Social Security benefit these days is only around $16,000. Unfortunately, too many people conclude that because they're eligible for a benefit – even if it's reduced, as is the case with Social Security for those who claim it early – it must be just fine to retire.

But as this chart from the Economic Policy Institute illustrates, the average household in the 56-61 age range has only $163,577 saved.



Source: "[The State of American Retirement](#)," The Economic Policy Institute

For most people, that's not enough to pay for the 20- to 30-year retirement they always dreamed about. In many cases, these people learn this the hard way a few years into their retirement, after their savings have dwindled, and they find themselves significantly cutting back their expenses and looking for work.

If you don't want to wreck your retirement, base your saving, spending, and retiring decisions on an accurate, thorough analysis of your unique circumstances and goals, via online calculators or with high-quality professional help.

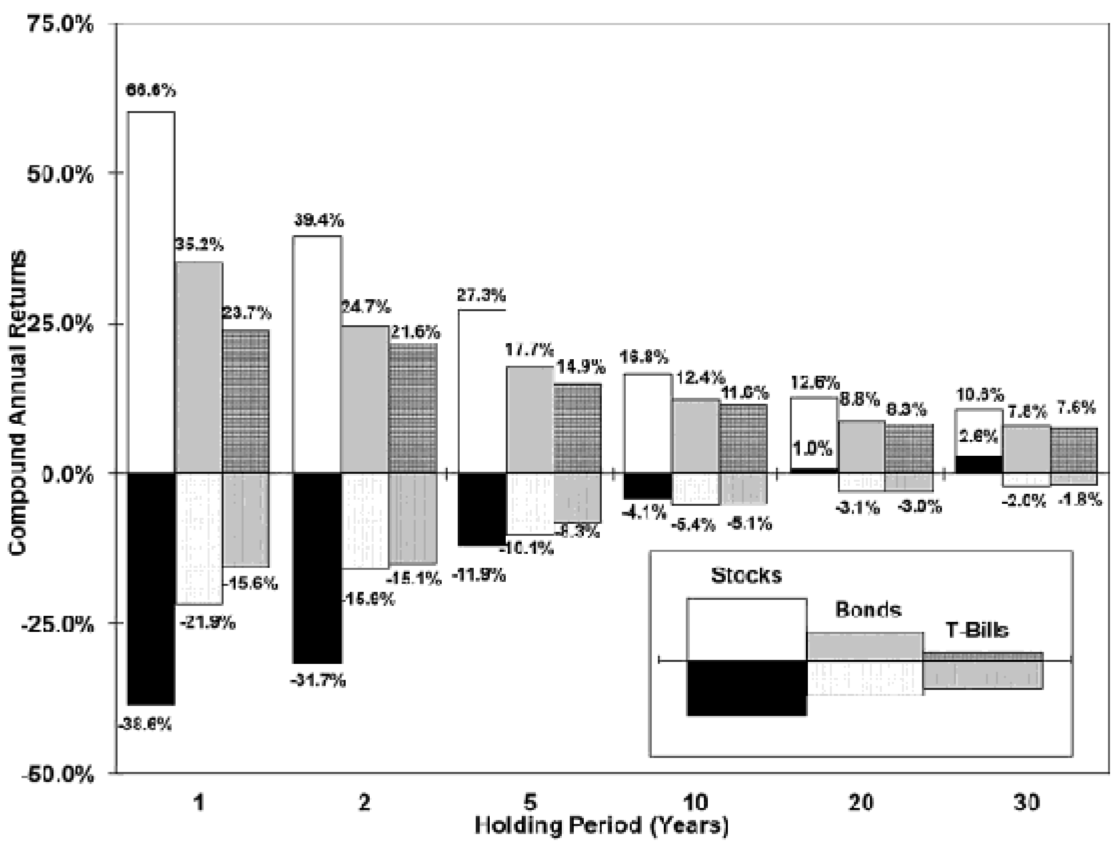
3. Focus on the Short Term

Retirement planning is a decades-long process that you should assume will continue until your 90s (or later, if you're like my wife's uncle who turns 100 next year). So one of the biggest mistakes you could make is focusing on what your portfolio does today, this week, this month, or even this year. While stocks are certainly volatile from one year to the next, volatility is only one measure of risk – and not the most important.

The more you invest in cash or bonds, the more you assume two other risks: 1) Your money won't earn enough to help you achieve your financial goals, and 2) your portfolio won't keep up with inflation. According to Jeremy Siegel's *Stocks for the Long Run*, stocks have never provided a return that trailed inflation over 20-year holding periods since 1802 – a claim cash (as represented by Treasury bills) and bonds can't make.

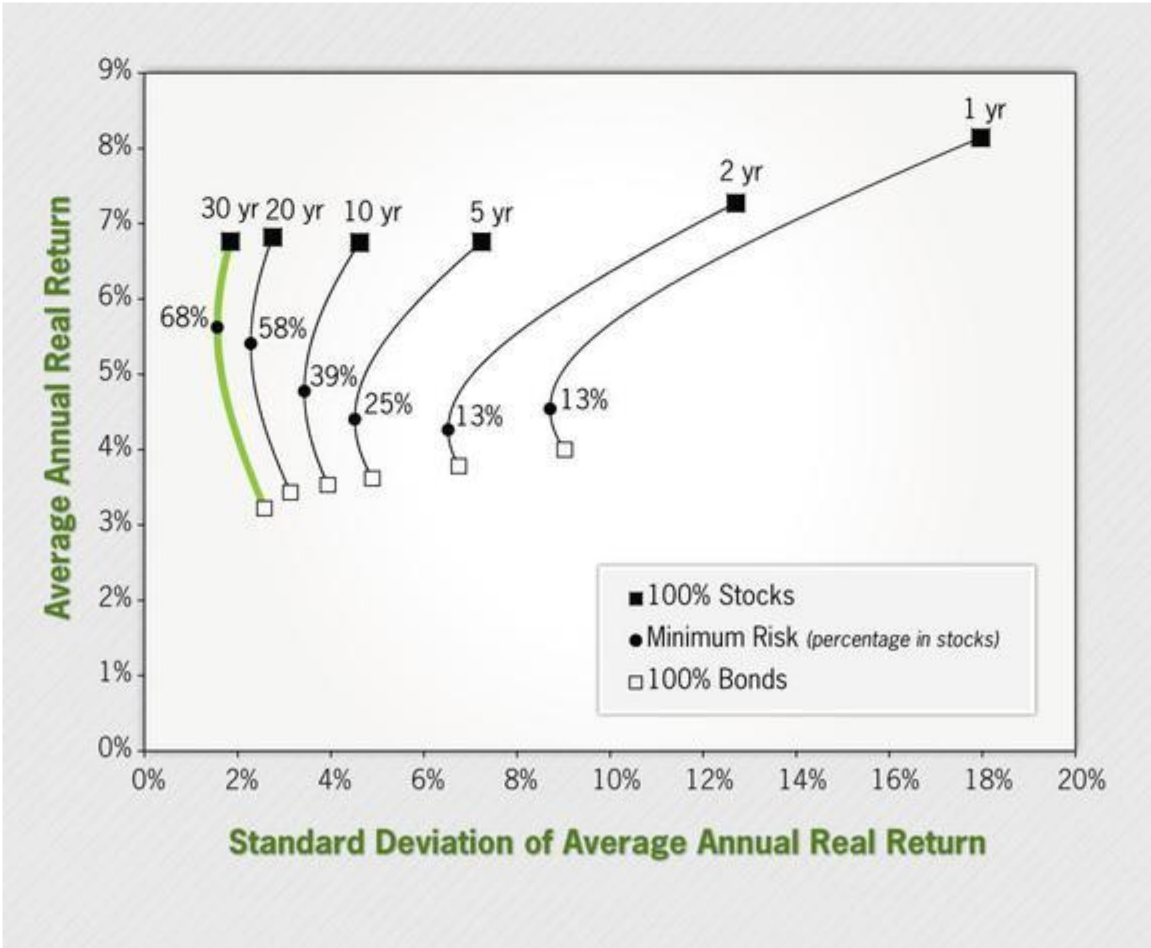
FIGURE 6–1

Highest and Lowest Real Returns on Stocks, Bonds, and Bills over 1-, 2-, 5-, 10-, 20-, and 30-Year Holding Periods 1802–2012



Source: *Stocks for the Long Run*. Note: Returns are expressed in "real" (i.e., after-inflation) terms.

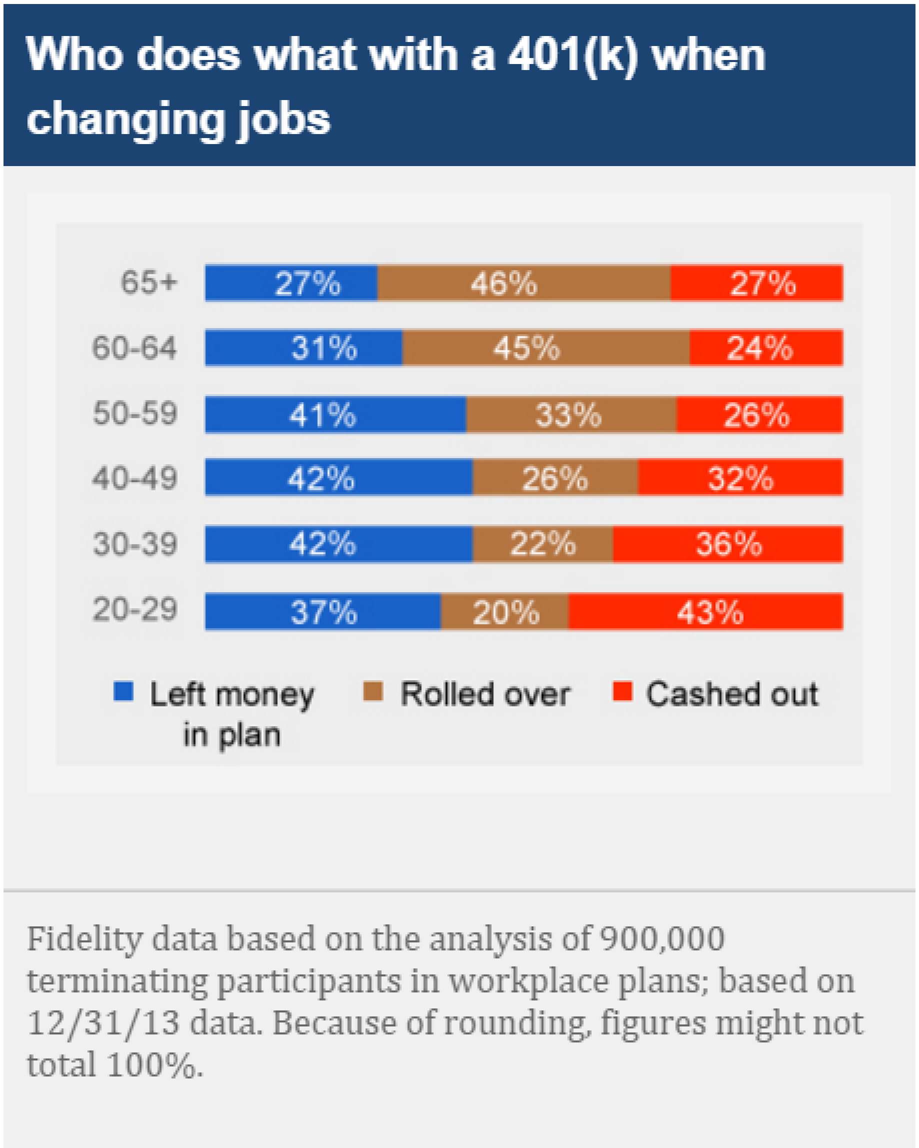
But for those who still want focus on volatility, know this: Siegel also demonstrates that over holding periods of 20 years or more, bonds are actually *more* volatile then stocks, when measured by standard deviation.



Source: *Stocks for the Long Run*

4. Cash Out Your 401(k)

According to Fidelity, an astounding one in three 401(k) investors cashes in the account when changing jobs rather than rolling it over to an IRA or the 401(k) at the new job.



Source: Fidelity Investments

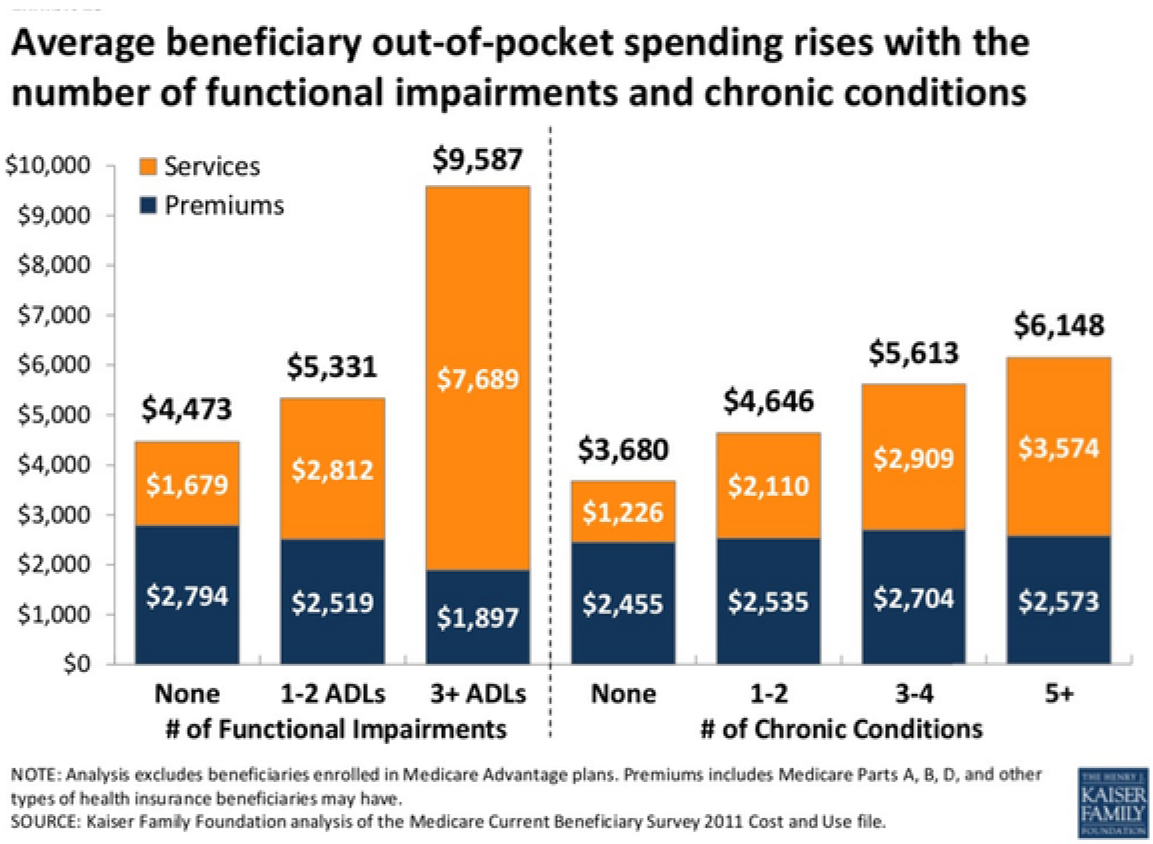
The people who cash out pay a high price, which starts with taxation of the deductible contributions, the growth, and employer match. They will also pay a 10% penalty if they're not yet 59 ½. But the biggest penalty might be the future tax-advantaged growth they won't get.

For example, a 40-year-old who cashes out his $50,000 401(k) would pay $12,500 in taxes (assuming a 25% tax rate) and $5,000 in penalties. If he instead rolls his account over to an IRA and earns 8% a year, it will grow to $367,009 in 25 years.

5. Neglect Your Health

Healthcare is among the top three expenses for most retirees, and it's the only one that grows throughout retirement. While we don't have complete control over our health, we're not always passive victims, either. As **Whole Foods** (NYSE: WFM) founder (and Motley Fool Board Member) John Mackey wrote in *The Wall Street Journal* in 2009, 70% of health-care spending is related to diseases that "are mostly preventable through proper diet, exercise, not smoking, minimal or no alcohol consumption, and other healthy lifestyle choices."

Permit us to republish a chart from the Kaiser Family Foundation that we previously included in our article on health-care expenses in retirement. As you can see, the more maladies you have, the more money you'll pay. (Note: "ADLs" represent the number of "activities of daily living" — such as bathing, dressing, and homemaking — that are limited by a person's health.)



When it comes to aches and pains, we're not just talking dollars and cents when it comes to wrecking vs. ruling your retirement. According to a survey of retirees conducted by Merrill Lynch and Age Wave, good health is the No. 1 determinant of a happy retirement.

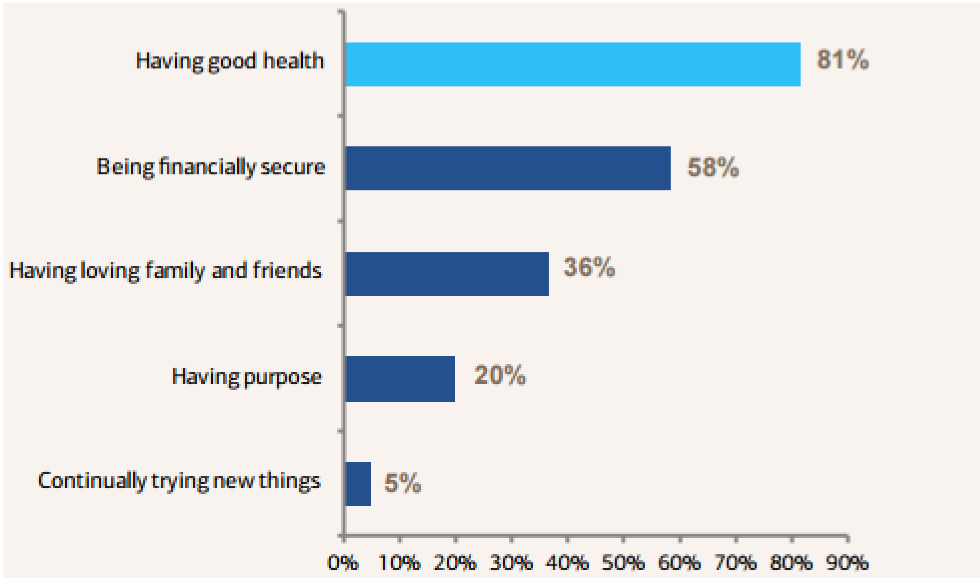


Figure 1: Percent of retirees who say the most important ingredients for a happy retirement are...

Base: Retirees, age 50+

Source: Merrill Lynch

6. Take Bad Advice

The financial-services industry is rife with "advisors" who are poorly educated about financial planning, and are in the business to enrich their own retirements at the expense of yours. I know, because I used to be one. When I started out, I received very little education, and just had to pass a few tests that had very little to do with helping people.

One of those was the General Securities Representative Qualification Examination (aka, the Series 7), which you must pass to be a broker who sells investments. It's administered by the industry's self regulatory organization, FINRA. Here's a sample question they provide:

EE savings bonds can be described as which of the following?

(A) Direct obligations of municipalities
(B) Direct obligations of the federal government
(C) Moral obligations of a local zoning board
(D) Moral obligations of state governments

Everyone who holds her- or himself out as a "financial advisor" should know the answer (which is B, by the way), but it's emblematic of the type of knowledge that is tested: Facts that anyone can memorize but don't *really* measure whether someone can analyze a person's situation and make investment and retirement-planning recommendations.

Alas, no test can measure someone's moral rectitude, which is why so many bad actors get into the industry... and, apparently, *stay* in the industry even after they get caught red-handed. That's the conclusion of a new study entitled "The Market for Financial Advisor Misconduct" by Mark Egan, Gregor Matvos, and Amit Seru. They found that approximately 7% of advisors have misconduct records that break down into the following categories:

Table 4: Sources of Misconduct and Settlements/Damages Granted

(a) Reasons for Complaint

Reasons for Complaint	Disclosure Type	
	Misconduct	Other Type of Disc.
Unsuitable	21.29%	31.12%
Misrepresentation	17.69%	25.57%
Unauthorized Activity	15.07%	10.55%
Omission of Key Facts	11.61%	7.72%
Fee/Commission Related	8.67%	7.41%
Fraud	7.89%	4.17%
Fiduciary Duty	6.48%	4.45%
Negligence	5.83%	4.50%
Risky Investments	3.72%	6.25%
Churning/ Excessive Trading	2.58%	2.65%
Other	42.52%	31.47%

Source: "The Market for Financial Advisor Misconduct"

A year after the offense, most advisors are *still working in the industry*. Some firms are better than others at weeding out the bad apples (to mix agrarian metaphors) than others.

Table 6: Firms with the Highest and Lowest Incidence of Misconduct

(a) % of Advisers who have been Disciplined for Misconduct

Rank	Firm	Misconduct Rate	# Advisers
1	OPPENHEIMER & CO. INC.	19.60%	2,275
2	FIRST ALLIED SECURITIES, INC.	17.72%	1,112
3	WELLS FARGO ADVISORS FINANCIAL NETWORK, LLC	15.30%	1,797
4	UBS FINANCIAL SERVICES INC.	15.14%	12,175
5	CETERA ADVISORS LLC	14.39%	1,432
6	SECURITIES AMERICA, INC. ,	14.30%	2,546
7	NATIONAL PLANNING CORPORATION	14.03%	1,760
8	RAYMOND JAMES & ASSOCIATES, INC.	13.74%	5,495
9	STIFEL, NICOLAUS & COMPANY, INCORPORATED	13.27%	4,008
10	JANNEY MONTGOMERY SCOTT LLC	13.27%	1,394

(b) % of Advisers who have been Disciplined for Misconduct

Rank	Firm	Misconduct Rate	# Advisers
1	MORGAN STANLEY & CO. LLC	0.79%	3,807
2	GOLDMAN, SACHS & CO.	0.88%	7,380
3	BNP PARIBAS SECURITIES CORP.	1.17%	1,109
4	SUNTRUST ROBINSON HUMPHREY, INC.	1.25%	1,040
5	BLACKROCK INVESTMENTS, LLC	1.39%	1,442
6	UBS SECURITIES LLC	1.51%	1,785
7	JEFFERIES LLC	1.67%	1,676
8	PRUDENTIAL INVESTMENT MANAGEMENT SERVICES LLC	1.70%	1,234
9	WELLS FARGO SECURITIES, LLC	1.70%	2,876
10	PERSHING LLC	1.72%	1,049

Source: "The Market for Financial Advisor Misconduct"

If you're going to work with a financial advisor – which is a perfectly Foolish thing to do if you don't have the time, knowledge, and inclination to do it all yourself – look for a fee-only financial planner who has a fiduciary duty to put your interests ahead of yours. Most of the folks who work at the firms in the table above are *not* trained financial planners but actually "brokers" – i.e., salespeople – and they do *not* have a legal obligation to put your interests first. It's an astounding state of affairs. If you choose to work with a broker, do a Broker Check to see if they're on the naughty list.

The Anti-Wrecking Bottom Line

Whether you work with an advisor or are a do-it-yourselfer, boosting your financial literacy is the antidote to wrecking your retirement. Just by reading this article, you have increased the odds that you'll be among the ruling minority.

So keep learning, keep sharing your education with your friends and family, and keep your advisors accountable. Ruling your retirement is a lifelong, decades-long, collaborative adventure.