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7 Retirement Planning Myths Debunked

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No matter how many years you are from calling it quits, it's essential to have some kind of plan in mind for financing retirement.

The days of counting on Uncle Sam and a company pension to carry you through old age are long gone. We're living increasingly in a "yoyo" economy—short for "you're on your own."

But it's easy to get fooled by some of the many myths about retirement planning that exist on the Internet or in misguided advice passed along unwittingly by well-meaning family or friends. Heeding bad tips could cost you in the future when you can least afford it.

Here are some of the most common myths about retirement planning, and the truth behind them.

MYTH NO. 1: It's OK to postpone saving for retirement until other needs are taken care of.

Don't fall into the trap of thinking it'll be easier to save for retirement in just a few more years. There are competing, expensive needs no matter how old you are — from college loans, wedding expenses to home, kids and their college. Every year you delay means you'll need to save more in order to get on track.

"The best time to start saving for retirement is when you were 22 years old," says Stuart Ritter, a certified financial planner with T. Rowe Price in Baltimore. "The second-best time is now."

MYTH NO. 2: Medicare will take care of almost all your health-care needs.

Medicare covers about half of all health-care costs for those enrolled in the program. For the rest, yes, you're on your own. That means you'll be on the hook for out-of-pocket costs for uncovered services such as long-term health care as well as dental, hearing and eye care, along with supplemental insurance costs.

A 65-year-old couple retiring this year is estimated to need about $240,000 to cover medical expenses throughout retirement, according to a study of retiree health-care costs by Fidelity Investments. Much of that comes in the final years of retirement.

MYTH NO. 3: You'll need far less income in retirement to maintain the same standard of living.

This may be true in some cases, but it could be a life-changing mistake to count on it. Surveys of retirees have found that many spend as much or more in the early years of retirement than before they retired.

Because retirement spending habits vary so widely, many financial advisors frown on the traditional rule of thumb that you need 70 percent to 80 percent of your pre-retirement income to maintain your lifestyle. If you reach retirement and find that was a bad guesstimate, "you may quickly find yourself looking for work," says Tim Steffen, director of financial planning for Baird Private Wealth Management in Milwaukee.

You may not need 100 percent of your earlier income. But take some time to analyze what you expect to spend in retirement in order to lessen anxiety.

MYTH NO. 4: You can claim Social Security early and still get full benefits later.

Applying for benefits as soon as eligibility begins at age 62 will entitle you to monthly checks immediately. But when you claim early, your benefits will be 25 percent less than if you had waited until your full retirement age and 75 percent to 80 percent less than if you'd been able hold off until 70. That remains the biggest misunderstanding among people using the AARP's Social Security Q&A tool, http://www.aarp.org/ssqa .

"This myth is not only so wrong but also dangerous," says Jean Setzfand, AARP vice president for financial security. "When consumers claim their Social Security benefits, they lock in those benefits for life."

Claiming early may still be the right move for some people, such as those with serious medical issues or a family history that suggests they're not likely to live to a ripe old age. But with people living longer and retirement sometimes lasting decades, it's best to make deliberate calculations and see if you can wait longer in order to collect more.

MYTH NO. 5: You should rely heavily on bonds rather than stocks as you get older.

That common advice made sense when retirements were shorter and inflation didn't have as much time to erode savings. Planning for a 30-year retirement, as you should do now, changes the thinking. So does the fact that the outlook for Treasury bonds isn't as bright, with the government loaded with debt and future inflation fears high.

To figure out what percentage of your investments should be kept in stocks, advisors now recommend keeping 110 or 120 minus your age in stocks, updating the old guideline of 100 minus your age. And consider high-dividend stocks that can replace some of the income that is often sought from bonds.

MYTH NO. 6: Any retirement target-date fund will allow you to "set it and forget it."

It's true that target-date funds are an appealing option for 401(k) and other retirement plans. The funds automatically adjust to a more conservative asset mix approaching retirement and the fund's target date. But they can give consumers a false sense of security and lull too many into ignoring their savings, at their peril.

They also vary widely. A review by the Securities and Exchange Commission showed target-date funds from the same year had as little as 25 percent or as much as 65 percent exposure to stocks.

If you invest in one, understand the "glide path" (how the allocation changes over time), how much and when it turns the most conservative, and whether you're paying more in fees than with similar target funds.

MYTH NO. 7: You'll be able to make up a savings shortfall by retiring later or working

part-time in retirement.

That's a hope or last resort, not a plan. It's unwise to rely on future circumstances for your 60s or beyond. Forty percent of retirees surveyed by consulting firm McKinsey & Co. said they were forced to stop working earlier than they had planned, citing health reasons, having to care for a spouse or family member or a layoff.

Even a job loss well before retirement age can be tough to recover from. People age 55 and over currently spend an average of more than 13 months on unemployment, according to the AARP Public Policy Institute—nearly five months longer than for younger job-seekers. So don't take it for granted you'll be able to make up for years of failing to save enough on the back end of your working life.

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