The Biggest Retirement Planning Mistakes People Make in Their 50s

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When it comes to retirement, starting to save and invest as early as possible is the common advice. However, the decisions you make in your 50s may have the biggest impact on how comfortable your retirement will be and the lifestyle you can afford.

Because of this, your 50s are considered the “retirement red zone.” During this time, you’ll still be earning income and be able to make final adjustments to your portfolio. It’s essential to bring your retirement planning to the forefront during this time and avoid making these critical mistakes.

Delaying Retirement Planning

If you’ve been saving and investing for years, it’s easy to assume everything will work out. However, if you don’t actually run the numbers, you won’t know important points like how much income your investments will generate each month and how long that will last over the long term.

Sit down and calculate how your investments, Social Security benefits, taxes, monthly expenses, and healthcare costs will fit together to support your retirement. Write out how you can adjust this plan to account for different life changes and events. This is also a great time to plot out your estate plans and beneficiary designations to help your loved ones honor your wishes.

The sooner you get the concrete data for your financial planning, the easier it is to make adjustments.

Underestimating Healthcare Costs

The amount retirees spend on healthcare can be surprising, and not preparing for it can derail your entire plan and cripple your monthly income.

Medicare can help cover bills, but out-of-pocket expenses will add up over time. Long-term care, such as assisted living or nursing care, is another expense that many overlook when planning.

Using online tools can help you estimate what you should expect to spend on healthcare annually and over a long period, such as 30+ years.

Failing To Have a Social Security Strategy

Social Security provides a monthly payout, but you should understand the pros and cons of taking it earlier or later and how it affects your specific situation. For example, if you begin taking Social Security at 67, you will receive the entire monthly benefit. Opting to claim the benefit early at age 62 will leave you receiving only 70% of it, while waiting until you turn 70 allows you to collect 124% of your Social Security check each month.

Aligning your timeline with the amount you need while in your 50s can give you enough time to coordinate your income streams before you begin claiming benefits.

Overlooking Tax Planning Opportunities

Tax-advantaged retirement accounts such as Roth IRAs and 401(k)s allow you to lessen the tax burden you'll have after you stop working.

When you put money into a 401(k), you don't pay taxes on your contributions until you withdraw them in retirement. This allows you to invest and grow that sum unhindered by taxes.

Roth IRAs are the opposite. Your already-taxed contributions grow in the account, and then you can make withdrawals without paying taxes later. One opportunity to save on taxes is to convert your funds from a pre-tax retirement account, such as a 401(k), to a Roth IRA, allowing you to make future withdrawals without paying future taxes.

Both of these retirement accounts also come with another advantage for those in their 50s. While the IRS limits contributions to specific annual amounts, catch-up contributions allow individuals who are 50 and older to deposit larger amounts to help them boost their savings before they retire.

Not Maximizing Your Investments

Depending on what you have invested, it may seem tempting to take aggressive risks to try to make up for lost time. On the other hand, you may be too conservative with your investments and fail to keep up with inflation. Working with a financial planner in your 50s can help you diversify your portfolio and find the right balance to hit your retirement goals.

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