Are You Making These Investing Errors?

Take a look at several investing errors that retirement plan investors may make and some tips to avoid making those same mistakes.

Retirement plan investors sometimes make mistakes that can inhibit the growth of their portfolio and possibly result in losses. Here's a look at several of these errors as well as some tips that can help you avoid making those same mistakes.

Panic Selling

It is not a pleasant feeling when an investment you own starts falling in value. You may second guess your reasons for buying that investment in the first case and wonder if it will ever climb back in value again. You may even be tempted to sell and try to cut your losses. Rather than selling in a panic, it is much smarter to take a step back and focus on the fact that many investments, especially stock funds and ETFs, experience short-term fluctuations. Try to determine if your investment's price decline is due to general weakness in the overall market and not because of any fundamental underlying problems. Always remember that investing for retirement is a long-term goal.

As someone investing for a financially secure retirement, your best strategy is to choose an asset allocation that matches the time you have before retirement, your ability to handle investment risk, and your investment objectives. Then give your strategy time to work. You always have the option of changing your investments, but reacting to every dip in the stock market can be a mistake.

Investing Too Conservatively

You may be risk-averse and tend to play it safe when it comes to choosing investments to include in your retirement plan portfolio. However, by investing too conservatively, you may not earn investment returns that stay ahead of the inflation rate. Since inflation reduces the future buying power of your savings, you will need to adjust your investments to earn inflation-beating returns.

Typically, the way to earn returns that outpace the rate of inflation is to take on additional investment risk and include some stock investments in your retirement portfolio. Doing so will increase its potential for long-term growth.

Over the historical record, stock returns have outpaced the annual inflation rate and have produced higher long-term returns than other asset classes, such as bonds and cash equivalent investments. Of course, past performance is no guarantee of future returns.

Contributing Too Little

If you are not saving enough, it's unlikely that you will reach your retirement goal. All else being equal, the greater the percentage of your pay that you contribute to your retirement plan, the greater your chance of attaining retirement security.

Determining exactly how much to contribute from each paycheck depends on a variety of factors -- your salary, your expenses, and other assets you have that are set aside for retirement. However, if your employer offers a matching contribution, you should at least contribute enough to get the full match. And you should also commit to boosting your contribution rate whenever you get a bonus or a pay raise. By making saving for the future a financial priority, you will increase the likelihood that you can have the financially secure retirement you hope for.

Taking Loans from the Plan

Plan sponsors often offer a loan feature to their defined-contribution plans, generally in an attempt to reassure some plan participants that they can access some of their plan savings in a financial emergency. However, it's best to avoid taking advantage of this option since plan loans can have a negative impact on your retirement security. For starters, you lose growth opportunities while the money you borrow is not in the plan. While you will be repaying the loan plus interest over time, no actual return is earned since you are the one paying interest on the money you borrowed. In addition, you will have to repay your loan using after-tax dollars. And when the money is distributed to you from the plan at retirement, you will have to pay income tax on the money again.

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Don't Forget Retirement Health Care Costs

Health care costs can take a big chunk out of a retirement budget. Planning adequately for these expenses should be on every pre-retiree's to-do list.

Sooner is better than later when it comes to planning your retirement budget. While you're still receiving a paycheck, figure out how much you'll need for a financially stable retirement.

Spending in Retirement

Once you retire, you won't have the day-to-day expenses you had while working. However, you will still have to pay for items like utilities, insurance, and transportation, as well as for groceries and other everyday expenses. And don't forget the one item that could have the biggest impact on your retirement budget -- health care.

Getting Real About Health Care Expenses

You may be happy with the health care coverage you currently receive through your employer. But will that coverage continue after you retire? Even if your spouse's employer provides retiree health coverage, you will still have to pay a variety of out-of-pocket costs -- deductibles, copayments, and part of the total premiums.

According to data from the U.S. Bureau of Labor Statistics, a U.S. consumer unit (which averages 2.5 people) spent an average of $6,159 on health care in 2023.[1] Of course, you'll spend less if you are young and healthy. However, you can see from the table that spending on health care tends to increase as you get older.

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Health Care Costs Per Consumer Unit[2]

Age Group	Annual Amount Spent on Health Care
25 - 34	$3,532
35 - 44	$5,509
45 - 54	$6,338
55 - 64	$7,164
65 - 74	$7,942
75 +	$8,145

Medicare will cover some of your health care expenses once you become eligible. But not all expenses are covered by Medicare. You may choose to buy supplemental insurance to cover expenses that Medicare won't. If you add up the cost of Medicare premiums, supplemental insurance, and out-of-pocket health care costs, you could be looking at a large annual expense for your health care.

What the Future Holds

You can't predict how much or how little health care you will need in the future. You can predict, however, that you will have to spend a portion of your retirement budget on health care. The smart way to prepare is to create a budget using realistic estimates of all your expenses -- and to keep putting as much money as you can in your retirement account.

[1]Source: Consumer Expenditure Survey, U.S. Bureau of Labor Statistics, 2024 (2023 data).

[2]Amounts are "consumer units," which average 2.5 people.

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