The biggest mistakes in retirement planning and how to avoid them

WHILE WE ALL DO OUR BEST TO MAKE THE RIGHT DECISIONS THAT WILL RESULT IN A COMFORTABLE RETIREMENT, IT CAN BE A COMPLEX PROCESS. ONE IMPORTANT WAY TO HELP ENSURE A POSITIVE FUTURE IS BY BEING AWARE OF THE POTENTIAL PITFALLS AND HOW TO AVOID THEM. HERE, A FAMILY LAWYER, A FUND MANAGER AND A FINANCIAL ADVISER GIVE THEIR VIEWS ON THE BIGGEST MISTAKES THAT THEY SEE PEOPLE MAKE IN RETIREMENT PLANNING, AND HOW YOU CAN SIDESTEP THEM.

This article is for general information only and takes no account of your personal circumstances and does not constitute a personal recommendation. If you are unsure of suitability, you should seek expert advice. Alliance Trust Savings does not give financial or investment advice.

The views and opinions expressed in this article are those of the authors and do not necessarily reflect those of Alliance Trust Savings.

The value of your investments can go down as well as up and you may get back less than you originally invested.

Ann Oliver, Partner and Solicitor
Innes Johnston LLP, Kirkcaldy, Fife

The biggest mistake we see is that people don't make a Power of Attorney for when they might lack capacity to make their own decisions. They are generally quite well aware of the need to make a will to govern what happens after death, but they don't think as much about what would happen if they lacked the capacity to make their own decisions while they are still alive.

A Power of Attorney for this type of situation is invoked when the doctor says an individual has lost the capacity to deal with their affairs. It doesn't necessarily have to be permanent, or because they no longer have mental capacity, it might be because they have had an accident and need to be in hospital for a while. Lots of people think they won't need one, it won't happen to them, but we believe everyone should have one.

It is easy and cheap to get a Power of Attorney and most solicitors can help you with it. It can be done in a matter of weeks. Of course, you need to appoint someone you trust – it doesn't need to be a family member if you have doubts about their motives. The fact it has to be certified by a doctor adds an additional layer of protection.

Dan Brocklebank, UK Director
Orbis Investments

The biggest mistake that people make is that they tend not to take a sufficiently long-term perspective. Ultimately, this is just human nature but, when it comes to retirement, it starts with not putting enough aside for the future. The most reliable way to grow wealth is very simple: spend less than you earn. Yet often people succumb to temptation to spend more **today**, for a whole variety of reasons.

A successful retirement plan gives people control over their lives; the freedom to wake up and decide what to do in the day is incredibly valuable when you think about it. Unfortunately, you can't have both: you can't spend more than you earn today and have lots of money saved up in future.

To earn this freedom in retirement, you need to unleash the power of compounding. Compounding lets your money work for you and the longer this runs for, the more powerful it is. So, starting early and saving enough are both key things to get right.

Even when people are putting enough aside, though, they often save a large portion of their money in cash, rather than investing it. This is usually due to a fear of "losing" money. But, this fear of suffering a short-term loss effectively guarantees a long-term loss because inflation erodes the value of those cash savings. With an appropriately long-term perspective, investors can ride out any short-term bumps in markets and access the higher long-term returns available from equities and bonds.

So, for a happy retirement spend less than you earn and start investing early. Find a way of investing that you trust and preferably one where the interests of the manager are aligned with yours. Then, stick with it.

Peter Chadborn, Director and Adviser
Plan Money

A key mistake is to underestimate the power of inflation and how that can compound over time, losing you money in real terms. It is sensible to have a good proportion of your income as inflation-linked. The state pension is inflation-protected, and so are most final salary pensions. If you are mainly in drawdown, it is more of an issue.

It is important to understand the difference between basic expenses and lifestyle expenses. Basic expenses are running cars, food shopping, utilities. Income for these needs to be inflation-linked and guaranteed.

Investment costs can have a similar effect. There are plan charges, advice costs and investment costs. Over the long-term, these can have a devastating effect on long-term value. We believe the running costs of a portfolio shouldn't be more than 1%. If your Adviser isn't taking high costs and you have a reasonable-sized drawdown pension, this should be a realistic level.

We also find that couples planning their retirement and working out their sources of income tend to think of themselves as a unit. They need a better understanding of whose income sources belong to whom and whether they will endure after death. If a retiree has a high guaranteed annuity, it usually means single life. You need to make sure your income doesn't evaporate on the death of one spouse.