



Do You Lie to Yourself About Retirement?

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Why do people lie?

Oftentimes, it is to gain an advantage of some kind. Unfortunately, we almost expect people to lie about the facts in a case if a person has something to gain by telling a lie. (See, for example, [this recent case](#).)

People also lie because it makes them feel better. By denying reality, a person may feel better about himself.

But should you lie to yourself? Probably not, but people do it all the time. Not facing reality can be expensive and actually harmful.

Ask yourself a tough question: "Is your retirement planning based on reality or are you planning on a retirement founded on wishful thinking?" Here are some common lies that people like to tell themselves about retirement.

"I don't need more money. I have plenty of equity in my home if I ever need the money."

Many people planning to finance a good portion of their retirement (the tens of millions of "baby boomers" who have hit 60 or are about to do so) by selling their house. That can be a good idea. If you bought a house in a large metropolitan area back in the '70's and are still in the house, you have undoubtedly made a large amount of money (on paper at least) on the value of the place you call your home.

So, for example, if you are going to sell your house in Alexandria, Virginia (a suburb of Washington, DC) and move to a small town in a rural state, you will make a handsome profit. You can buy another house in a much cheaper area and put the rest in investments that will help sustain you while living your retirement dreams.

But some readers will have a problem. If you live in an expensive area, along with your other family members, it may be a long drive from rural North Carolina or West Virginia to Washington, DC. Do you really want to pack your belongings you have accumulated and ship it off to a small town away from your family and friends? Will you be able to adjust to a smaller house?

While writing this, I am looking out my window at several houses on my street that have recently been purchased by baby boomers who have retired or are planning to retire to their "new" home in the next two years. They are nice houses in a scenic area. The houses are smaller than they are selling or

have sold in large metropolitan areas. The street is currently filled with construction vehicles adding on to the new retirement homes. After living in a smaller house for about 6 months, the new home owners decided they needed more room for their possessions, their grandchildren or their aging parents. No doubt, much of the money they saved from the sale of their new house are going into the bank accounts of local contractors--most of whom are now driving brand new and expensive Ford, Chevy or Toyota pick-up trucks.

So, if you decide not to sell your house where you are now living, you could always borrow against the equity in your home to finance your retirement. But here are a couple of caveats with this strategy.

Interest rates are currently at historical lows. What will they be in 3, 5 or 10 years? You may find yourself paying interest at rates of 8% or higher in a few years to borrow against the value of your house. That sounds high--unless you happen to recall interest rates of 13% or higher a few years ago that people were paying to buy a house. Higher interest rates may also drive down the value of your current abode. In other words, you could get hit with a decreasing home value and higher interest rates. Either or both of these scenarios could shoot your plan down fast.

But perhaps the "sell your home" strategy does not apply to you for some reason. Here is another pitfall faced by some retirees as they sell themselves on a plan to finance retirement:

"I won't need as much money as I make as an active federal employee. I can live on 60% or 70% or 80% of my current income."

Perhaps you can live on less money. You will not be spending money on gas for commuting to work. You won't be dry cleaning suits or dresses as you may do now as you "dress up" for work.

Here is a big caveat though. You will have more time to spend more money in retirement. Meeting friends for lunch, driving to the mall or to meet with friends and family, or taking that cruise during the winter months to the Caribbean can eat up your potential savings fast. You may also find you want to make changes to your house (either the new one you just bought or your old one that now needs a lot of work) and home improvement costs are going higher.

In other words, many retirees find they need just as much money as they now make as a full-time working stiff. If you are already saving 25% or 30% of your income, you may be fine as you have already adjusted to spending less than you have. Most of us do not have that self-discipline and spend what we have. We do not magically change our habits after filling out the federal retirement forms.

Here is another "fact" that we often tell ourselves about retirement that is not necessarily true:

"I will pay less in taxes after I retire!"

Again, that may be true. Many federal employees are now paying taxes while in a high tax bracket. Your income will go down after you retire in that your monthly deposit from Uncle Sam is probably going to be less than what you now receive. But what is the source of your income after you retire?

Some retirees will be spending money from retirement accounts that have been accumulating tax-free for a number of years. But, just because the long arm of the Internal Revenue Service did not reach into your retirement savings while you were hard at work, you have not been forgotten. For some retirees, it is payback time. That money you withdraw from your retirement savings is often taxable as

ordinary income.

And, if you pay off your mortgage before you retire, you may find that you cannot itemize your deductions on your income-tax return. That could also mean your tax payment will not go down as you think it will as you gaze into the future. Even if you do not need money from your retirement accounts when you first retire, you will, if you are fortunate, hit the magic age of 70.5 at some point. When you do, you may find that Uncle Sam wants to start getting payments from your tax-free retirement accounts as you will be required to start withdrawing the money.

Finally, if you haven't noticed, property taxes in many areas (if not all) are going up. Local governments find numerous ways to spend money. The teachers want raises. The roads need to be paved and those without health insurance (whether here legally or not) go to hospitals and may get medical care that has to be paid for in some way. In other words, as a former worker bee who now has a retirement income and is living in a house that may be bought and paid for, your bills may actually go up.

In short, all of us probably lie in one way or another. But lying to yourself about your retirement is not in your best interest. Talk to your financial adviser before you retire and have a realistic expectation of how much you will have to spend after you retire--and whether that number matches what you are likely to need after you walk out of the federal building as an active employee for the last time.

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