

The Retirement Mindgame

Your outlook may influence your financial outcome.

Provided by *Benedict A. Mitchell Jr.*

What kind of retirement do you think you'll have? An outstanding one? A depressing one? What if it all starts with your outlook? Qualitatively speaking, what if the success or failure of your retirement begins with your perception of retirement?

A whole field of study has emerged on the psychology of saving, spending and investing: behavioral finance. Since retirement saving is a behavior (and since other behaviors influence it), it is worth considering ways to adjust behavior and presumptions to encourage a better retirement.

Delayed gratification or instant gratification? Many people close to retirement age would take the latter over the former. Is that a good choice? Often, it isn't. Financially speaking, retiring earlier has its drawbacks and may lead you into the next phase of your life with less income and savings.

If you don't love what you do for a living, you may see only the downside of working longer rather than the potential boost it could provide to your retirement planning (i.e., claiming Social Security later, tapping retirement account balances later and letting them compound more). If you see work as a daily set of unfulfilling tasks and retirement as an endless Saturday, Saturday will win out and your mindset will lead you to retire earlier with less money.

On the other hand, if you change your outlook to associate working longer with retiring more comfortably, you may leave work later with a bigger retirement nest egg – and who wouldn't want that?

If you don't earmark 66 or 70 as your retirement year, you can become that much more susceptible to retiring as soon as possible. You're 62, you can get Social Security; who cares if you get less money than you get at 66 or 70, it's available now!

Resist that temptation if you can. While some retirees claim Social Security at age 62 out of necessity, others do out of inclination, perhaps not realizing that inflation pressures and long term care costs may render that a poor decision in the long run.

The good news is that Americans are waiting longer to claim Social Security than they once did. Increased longevity may be a factor in that trend, but the findings are encouraging nonetheless. The number of men claiming Social Security at age 62 increased 2.3% from 2007-09 to 35.8%, and the number of women claiming Social Security at age 62 increased 2.6% in that span to 38.9%. Still, these percentages fell short of those a generation before. From 1986-97, roughly

half of all women claimed Social Security when they turned 62 and nearly half the men did; since 1997, the percentages have never approached those levels.^{1,2}

Setting a target age for retirement – say, 65, 66, or even 70 – before you turn 60 can help mentally encourage you to keep working to that age. Providing your health and employment hold up and you can work longer, patience can lead you to have more Social Security income rather than less.

Take a step back from your own experience. For some perspective on what your retirement might be like, consider the lives of others. You undoubtedly know some retirees; think about how their retirements have gone. Who planned well and who didn't? What happened that was unexpected? Financial professionals and other consultants to retirees can also share input, as they have seen numerous retirements unfold.

Reduce your debt. Rather than assume new consumer debts that advertisers encourage us to take on commensurate with salary and career growth, pay down your debts as best you can with the outlook that you are leaving yourself more money for the future (or for unexpected situations).

Save and invest consistently. See if you can increase your savings rate en route to retirement. Don't look at it as stripping money out of your present. Look at it as paying yourself first, and investing for the comfort of your retirement.

Florida Benefit Specialists

**Primary Address: (North Florida Office) 2233 NW 41st Street, Suite 700-A, Gainesville, FL. 32606
(South Florida Office) 6451 North Federal Highway, Suite 1201, Fort Lauderdale, FL. 33308
Cellular Phone: 954-461-5502 Toll Free: 888-236-9894 Ext.1. Fax: 888-236-9894**

Benedict A. Mitchell Jr. is registered with and securities offered through Kovack Securities, Inc. Member FINRA/SIPC. 6451 N. Federal Highway, Suite 1201, Ft. Lauderdale, FL 33308 (954) 782-4771. Advisory services offered through Kovack Advisors, Inc. Florida Benefit Specialists is not affiliated with Kovack Securities, Inc./Kovack Advisors, Inc.

Benedict A Mitchell Jr may be reached at 1-888-236-9894 Ext 1. or bmitchell@ksifa.com

<http://www.floridabenefitspecialists.com/>

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Citations.

1 - ssa.gov/retirementpolicy/research/early-claiming.html [4/13]

2 - fool.com/retirement/general/2014/06/07/social-security-what-percent-of-americans-claim-be.aspx [6/7/14]