

## Episode 140 Financial Habits & Mistakes That Sabotage Retirement

**Patti Brennan:** Hi everybody, welcome to The Patti Brennan Show. Whether you have \$20 or \$20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives.

Today's episode is going to be on a topic I think is really important. We're going to be discussing the habits and mistakes that can sabotage your future financial security.

Joining me today is Bernadette Hunter. I finally convinced Bernadette to come on the show. She came kicking and screaming. Bernadette wears many hats here at Key Financial. She is Head of Communications. She is the voice that you talk to the first time you call Key Financial.

I personally think it's important to have a live voice answering the phone, and if you have a question, you get it answered on the spot. That's why we have the bench that we have. Bernadette will take the initial calls if you have a question, just to see if there's anything that we can do to help. Thank you for joining me today.

**Bernadette Hunter:** Thank you for having me, Patti. I can't believe you have me behind the microphone. I always said, I never would, and here we are.

**Patti:** Here we are. You know me, eventually, I'll convince you.

**Bernadette:** Oh, you're very persuasive.

**Patti:** Absolutely. I thought this was an interesting topic. You and I were brainstorming, and this is something that you brought up. When people call in, they have questions and they want to get a sense of maybe where they are, right?

**Bernadette:** Exactly, and that's one of the nice things about this part of my job. I've been doing this for almost 13 years now with you if you can believe that.

**Patti:** Nope.

**Bernadette:** Time flies. One of the neat things is hearing the stories of people who call in at various seasons in their life.

They can be in the thick of their careers, they can be approaching retirement, they can be already retired. We'll have a conversation, half-hour sometimes, just tell me about you. What prompted the outreach to us? That's how we can find out how we can help.

If there's one thing I have learned, Patti, in working with this incredible team here at Key Financial is, you're very good at what you do and we're very good at what we do. There are certain things that you've been able to identify certain habits that people may not even realize that they're doing throughout their lives, that can sabotage a retirement.

The neat thing is, there's always hope that you can identify, and I thought maybe that would be a great thing to talk about today.

**Patti:** I'm so glad that you started out with that Bernadette because it's cool to see the before, the during, and the after, isn't it?

**Bernadette:** Yes.

**Patti:** I have yet to meet with anybody where we couldn't find a solution. When people call, sometimes they're calling out of desperation, they just don't know what to do anymore. Little by little, sometimes it takes an hour. We come up with two or three action items, they walk out feeling so much better than when they walked in with an action plan that can help. How about we do this? Why don't we break this down, because I have found that there are certain things depending on the season of life, right?

**Bernadette:** Sure.

**Patti:** You are the mother of four kids, I'm the mother of four kids. We've seen it all, haven't we?

**Bernadette:** Yes. Thank God they're all raised and out of the house.

**Patti:** Although there is that boomerang that does happen from time to time, and we're going to talk about that. Well, I'm just going to tell you right now. I've often said that the most expensive season of life is when people are in their 50s. I'm going to change that. I think it's now in the 60s, because of the sandwich generation.

Your mom is still alive. My parents are no longer alive, but when they were, I was taking care of my parents and taking care of my kids and that is hard. That's something to be aware of, but let's go back. Let's go back to our kids' age, young adults, younger workers. What are some of the things that you've seen?

**Bernadette:** All our kids have successfully graduated from college and they're in their first careers and they're trying to keep up with their friends, I think, in terms of whether they're going out buying houses, should we rent, move into the city? They're making lots of decisions that they may not even realize could impact themselves years down the road financially.

**Patti:** Huge. I'm so glad that you brought that up because it does. It may not have such ramifications today, but the fact that they're doing those things and not stashing the most they can in their 401(k)s, means that their 401(k) is not going to grow to a certain balance when they're 50 years old and they're walking down our hallway, as you see, as I see.

Begging me, Patti, please, can I stop working? Please, can I retire? I have to say to them, I'm sorry, but you've got to grind it out for another five years. It's just not going to happen. It's not realistic, and it's because of the things that they did or didn't do in their 30s and 40s.

**Bernadette:** They're waiting till they make more money to save...

**Patti:** Biggest mistake ever.

**Patti:** I often say automate your savings and pay your bills the old-fashioned way, because when you're paying your bills the old-fashioned way, and by that, I mean not necessarily paying cash.

When you're writing out checks, you're realizing how expensive that Comcast bill is, it is painful. You realize how it adds up. You do the math, and you can do it online. Look at the impact of a \$240 bill every month and what that might mean, not having that money growing for you at retirement. It's a big deal.

**Bernadette:** Sure.

**Patti:** I think the other thing is, again, to your point, a lot of that generation may have saved into their retirement accounts, but they see their friends buying a new home. They may have a home and they're upsizing it for kids and all of that. To do so, they're pulling money out of their retirement accounts even if they borrow from a 401(k).

That has immense ramifications that need to be understood. Please try not to do that, really don't. You're taking that money from your future self.... not OK! I don't believe that everything that you do should be for the future, there is that balance as you well know, how often do I end up telling people, please start spending this money, you're going to be OK.

It's because we've run the numbers. We've got to buffer. We know, plus or minus they're doing the right things and if they continue to do those things, they'll track just fine. That's the thing. So many times, people go into life and continue in their careers raising families. You and I both did it with our homes and hoping and praying that it's all going to work out.

Hope is not a strategy. I believe there's always a reason to be hopeful, but you got to have a plan. What is the plan? I've often said, and you've heard me say, I wish there was another word for a financial plan. Here it is, guys. All it is, is a set of action steps integrated in such a way to help you accomplish the things that you want to accomplish. It's integrated.

Why put money into a 401(k)? Should you do pre-tax or after-tax? The answer may be different for the 35-year-old than it is for the 55-year-old. Look at the time value. There are a lot of decisions. They may feel small, but boy, they can have a major impact.

Again, getting back to the younger generation, I want to make sure that we hit everything. Because of what happened in COVID, many of these 30-somethings and 40-somethings lived through the financial crisis, they don't want to expose themselves to too much of that volatility.

The old thing, the 401(k) becomes a 201(k), so they move it all into conservative investments. Keep in mind, your retirement accounts are accounts that you are hopefully not going to touch for 20 years.

**Bernadette:** For decades.

**Patti:** Leave it alone.

**Bernadette:** Leave it alone and realize that you are at the best possible growth place in your careers at that young age, even when you don't think you're making much money, and that's the key. "We don't make enough to save". That mentality is a self-sabotaging mentality.

**Patti:** It is sabotaging, and it is the wrong story to tell yourself. You can always save something. I don't care if it's 25 bucks. Ed and I started our first investment with \$25 a month and it just developed. We got in the habit, we put our toes in the water. You can start at any age.

All right. We've done the younger generation, let's do midlife decisions, etc. I would say the thing that sabotages more people than not is, they put their heads in the sand. They don't have a good sense of where they are.

That “You are here” sticker at the mall... they have no idea where they stand and they're making decisions without really understanding the implications, pro and con.

**Bernadette:** Pro and con, to your point of having a plan. Not having a plan, is actually having a plan!

**Patti:** Oh, you can tell this girl, I trained her well.

**Bernadette:** [laughs] Seriously though.

**Patti:** It's so true. Everybody's got a financial plan, it just might not lead to where you want it to go. There's going to be an outcome, plus or minus, so make sure it's the outcome that you're striving for.

I think that one of the reasons people do that, honestly, there's a human element to all of this. Sometimes it takes a lot of courage to face it. You get those calls. I always give people a lot of credit, because it's acknowledging that maybe you don't have all the answers. For some people that might be hard to admit.

**Bernadette:** That's very hard. For example, it is not uncommon for me to get a phone call from a CEO, an attorney, a doctor, very accomplished professionals in their own industries. Very educated, highly educated, and they're almost apologetic, Patti.

That, “Oh, I'm somehow failing financially in my financial planning for my retirement” because they feel like “I'm failing in taking care of my family or my wife or our future”.

Even if they're working with another advisor, which is now becoming very common as well, something is not right. I always try to tell them; we can't be experts at everything. When we're sick, we go to a doctor, when we need legal advice, we go to an attorney. Go to a professional when you need financial planning and retirement advice.

That's where we really excel here, and that's where you bring 30-plus years of experience, and you know how to tell people it's going to be OK.

**Patti:** It's going to be OK. I think that that is the most important message. I also agree with you. There's so many shoulds in America today. You should be able to do this yourself. You know what, why? Don't should on yourself. This stuff is hard. To your earlier point, I've had a lot of meetings recently where people had an advisor, but they were just managing the portfolio.

Sorry, that's not financial planning and aggregating a lot of different accounts onto a platform or onto a website, that's not real wealth management. What people want is a holistic overview. Taxes and income taxes are a big deal. Cash flow. How am I going to replace my salary when I stop working? I have a business.

What's it going to be like when I sell it? How am I going to pay all the taxes? Is there anything that I can do now to mitigate that tax bill that will probably occur? Things of that nature, you just never know.

**Bernadette:** You never know, and life is complicated. It's very complex. People are coming to us with more complex issues, not just tax matters to your point. Business and health issues and kids' issues and kids have student loans, and should we pay the student loans?

That's a very common thing, Patti. We have people close to retirement who feel the need to do this for their adult children.

**Patti:** Again, that's one of those shoulds, Bernadette. I would have to say, why? Make sure that you don't turn around 10 years from now and say, I wish I hadn't, because you don't want to be a burden on those same children in retirement because then you're not going to have a lot of choices.

It's not like you're going to be able to go back to work. We must be very cognizant of those decisions. Also, you want to think about some of the other choices, like when to take social security. What about Medicare, supplemental plans? Where do you go? Do you go with B plan or G plan?

There are so many real-time decisions that need to be made. Should I roll over my 401(k)? What are the pros and cons of leaving it there versus rolling it into my own IRA? You have to give it to people straight.

Look at the ramifications and the implications of a decision and what you might be giving up. That's the most important thing because you don't want to look back and say, I wish I hadn't.

**Bernadette:** Wish I hadn't, and then it's what a relief. These clients, prospective clients that I talked about at the beginning, it's so neat to see them at different parts in their relationship with us. When they do have financial plans designed that are unique to them by our team, it is amazing because you run the numbers, Patti.

You run different scenarios. You give them freedom of choice and options. It's like having all these different professionals handle every question you've ever had and what a burden and what a weight that's lifted off their shoulders. People who think they're going to have to work until they're 75 walk out of here with a renewed sense of happiness.

**Patti:** We can do this.

**Bernadette:** We can do it now.

**Patti:** I'll never forget. We had a client who I knew the husband and wife and I got a phone call after our meeting and from the husband and he said, I want you to know that when we left your building, my wife got in the car and sobbed. She was so relieved. I am reminded of a case that we had with a client who worked for an insurance company. She was in corporate America working 50, 60 hours a week. She came to me, and this was about 10 years ago. Bernadette - because we ran the numbers, we did the stress test. I looked at every worst-case scenario I could possibly think of.

What if this happened? What if that happened? And she was fine. She had the capacity to withstand and endure some of the ugly scenarios that we were able to dream up.

Despite that, she continued to work. I couldn't get her to retire for three years. Finally, in one of our meetings, I asked her. Pretend her name was Stacy.

I said, "Stacy, tell me about your bucket list. We've run cars and vacations, but I want to hear what is on your bucket list that you don't think that you can do, but you'd like to do

it?" Oh, she went off. It was so cool. She was of Irish descent, and her dream was to go to Ireland for a month and just travel around the country, north and south, etc.

**Bernadette:** Nice.

**Patti:** I said, "So what's stopping you?" She said, "It's too much time. I can't take that time off." I said, "Guess what? You can take that time off, and you can do it permanently if you want."

Long story short, she finally retired. She took that trip to Ireland. It was the trip of a lifetime. She spent a fair amount of money, but honestly, I got postcards. It was fabulous. Do you know that she came back, and within six months, she was dead from pancreatic cancer?

I think about that so much. I think about, "My God, what would have happened if I wasn't able to convince her that she didn't have to stay on that treadmill, that she didn't have to work those 50 and 60 hours per week, if I hadn't asked her just one question?" It is often the questions that bubble up. What's important in your life?

Remember, guys, your money is a means to an end. Again, I don't care how much you have. You could have 20 million dollars. We have many, many clients who have that and multiples of that.

Yet they still have worries, they still have goals, they still have desires, and they want those action items that can help them accomplish those things sooner than if somebody hadn't done the things that we were doing.

It's universal. We are human beings; I think that maybe that's the biggest thing that I've learned from all of this. Yes, it's the habits, and I can spot them like that.

The habits throughout life, the mental accounting that people often do, the mistakes that are made throughout the years, for me, it's easy. I can spot it, and I can make sure that it doesn't happen.

It's really taking the time. I'd love to say it's easy. I'd love to say that it's all me, it's not. It takes 30 full-time employees to do this the right way. The right way. It's a long way of saying, "What are the mistakes?" Not having a plan, not having those action steps.

By the way, what are some of those action steps? We've talked about diversification and asset allocation. That's important. What about diversifying your tax buckets? Maybe having some Roth, maybe having some after-tax, some pre-tax.

A lot of people have everything in their retirement plans. They retire, and they're living on retirement plans and that's causing their Social Security to be taxable.

What if they did it a little differently? What if we had some savings on the side that same client can live on initially, and then their Social Security could be tax-free even.

Or they may have company stock, and they are holding onto the company stock because they don't want to pay the capital gains. OK, fine, let's wait until you retire, you'll be in a 12 percent tax bracket. Guess what? No tax. How's that for a great idea? You just don't know, and it is different for everybody.

To me, again, I don't know why, but I can spot it. These are the opportunities that can make a big difference in the long term.

The other thing that is important is that if you got a financial plan, that's a one-shot deal, but that's not ongoing. The most important thing is to make sure that what you're planning for is occurring. Again, I've talked about it before, you don't go to the doctor when you're 30 years old and think you never have to go back again.

**Bernadette:** Exactly.

**Patti:** Things can happen, things will happen. That is the most important thing to walk away with - just assume that things are going to change. That part doesn't change. Tax laws are going to change, we already know that. Your situation is going to change.

You may have a job; you may lose a job. Somebody might get sick. Things are going to change, and it's OK because we've seen it all, at least, I can say that I have.

**Bernadette:** You've seen it all, and clients want to work with a professional because they don't know what they don't know... but you do. You can see the opportunities that they don't know about, and that's why they are coming to you as a client.

**Patti:** It's just an extra set of trained eyes. By the way, guys, those of you who are watching and listening, this is not about Patti Brennan or Key Financial, this is about the value of advice.

This is about you having an unbiased third party who pretty much knows everything about you, who can give it to you straight, who has the courage to give it to you straight. It doesn't matter.

I've told those very, very high net worth, super powerful people, "OK, you're not doing this right, cut it out." It's so funny because they're surprised. I'm this little short Irish woman, and they're not used to it, but again, if I don't tell them, who will?

That's the most important thing, there is some value there. But the most important thing is to understand what the common mistakes are that sabotage future financial security either for you, your spouse, your partner, or your children, because the decisions that you make can have dramatic impact on everybody that you love.

Bernadette, is there anything else that people have questions about?

**Bernadette:** As they're entering retirement, there's a lot of questions about how much money they're going to need for medical expenses that are unforeseen.

You just mentioned people worrying about their spouse and thinking that whatever health coverage they have is enough. What was that Fidelity number we were talking about?

**Patti:** According to Fidelity, the average a retired couple in America will need in retirement is \$300,000 - just to cover healthcare expenses that are not covered by Medicare supplemental plans. That's a big chunk of money.

**Bernadette:** That's a lot of money. A lot of people think, "Well, I'm on Medicare, I'll be fine."

**Patti:** Bernadette, you've asked a great question because it's one that I often get as well. As people are approaching retirement, it's that feeling of ambiguity. How's this really going to work? How am I going to spend my time? How am I going to replace my salary?

The seeds that were planted when that person or that couple was in their 30s, in their 40s, were planted then, and it has to do with cash flow. What are we going to need on an ongoing basis for the rest of our lives?

People come in here and they may have already bought a second or a third home. Was that a good idea? Maybe, maybe not. That's a cash flow item. Ultimately it does come down to cash flow. How do you replace that income? Equally important, those seeds that were planted come down to awareness.

Instead of wondering where your money went, why don't you tell it where to go? By that I mean, when you're in your 30s, when you're in your 40s, in your 50s, yes, you've got a lot of pressure. You've got a lot of things that are screaming for your precious resources. Tell them to go away.

You're telling a portion of the income that you receive where to go so that 5 years from then or 10 years from now, you've got options that you otherwise wouldn't have had. That is so liberating. I can't begin to tell you. It's the greatest feeling in the world.

Even as you're doing it because you know, because somebody's run their numbers for you, and 5 or 10 years from now, you know you're going to have this pocket of money in a joint account that you can fall back on and maybe even retire sooner.

Tying it in a bow, these habits start in the younger years, and they never end. Understand what they are, understand the mistakes that are made over and over again, and just make sure you don't become a victim of them.

Thank you so much for joining me today. Bernadette Hunter, thank you so much for finally getting on the program. Thank you for everything that you do for me and for all of our clients.

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