4 financial planning mistakes to avoid

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If you want to achieve your financial goals, what you do is only part of the story. What you don't do is just as important.

Want to meet your financial planning goals with few issues? To increase your chances of achieving financial security, avoid these 4 mistakes:

1. Waiting too long to save

In between dealing with the mortgage, the kids' post-secondary education and, well, life, you neglected to also save for your longer-term goals. I'll get to that later, you mused. But "later" is now and you find yourself in your mid-50s, tired of working and wanting to retire.

"The longer you wait to save, the harder it is to retire comfortably and confidently," says Bam Sidhu[1], manager of Sun Life Financial's Abbotsford, B.C. financial centre. "Many clients who we sit down with today are worried about whether they can retire comfortably with the same lifestyle they are accustomed to."

2. Giving adult kids an early inheritance

Sidhu has an older client who was recently widowed. She was concerned about running out of money for retirement. It turned out that she's been financially supporting her 30-something, unemployed daughter for the last 5 years, to the tune of $60,000.

“You can imagine what that does to her bottom line as she continues getting older, it’s huge,” Sidhu says. Keep your need to save for your own retirement in mind when you think about giving money to your adult kids.

3. Not having a written financial plan

Perhaps you have saved some money, but you haven’t the foggiest idea of whether it’s enough to retire on, because you don’t have a plan.

Many people believe a financial plan is simply a discussion of life goals, or the investment statement you get every quarter, but that’s far from the case, notes Sara Zollo[2], a Sun Life Financial advisor based in Richmond Hill, Ont.

“It’s important to have a document that you are able to go back and refer to,” she says. “Having a written financial plan is so much more beneficial than walking around with just a verbal plan. A written financial plan helps you to mentally clarify where you want to be in 5 years, know how much to save and determine how best to invest your money."

Other people wrongly believe their situation is too simple to warrant even getting a plan or seeking professional financial advice in the first place. “That’s a mistake, because an advisor can help you understand how to get from point A to point B,” Zollo says.

4. Thinking investment strategies that worked in the past will still work today

You need to look at your situation as unique with its own set of challenging circumstances. Let’s say your parents were diligent savers in the 1980s. Chances are they invested in guaranteed investment certificates (GICs) and Canada Savings Bonds and were able to achieve high single-digit returns with that strategy. In today’s economic environment, though, you would likely need higher-risk investments than GICs and savings bonds to achieve similar rates of return.

It’s a good idea to stay on top of new financial instruments available, such as the tax-free savings account (TFSA). “A client of mine had been diligent at savings but paid about $8,000 more in taxes than he needed to,” says Chris Das[3], a Sun Life Financial advisor in Strathroy, Ont.

If any of these mistakes looks uncomfortably familiar to you, don’t despair. It’s never too late to start working towards financial security. No matter what stage of life you’re at, it’s a good idea to sit down with an advisor to analyze your current situation and make a plan for the future.