7 costly mistakes that can ruin your retirement

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The state of retirement readiness is on shaky ground. In a recent report by the Transamerica Center for Retirement Studies, only 39 percent of those surveyed reported they were building a large enough nest egg for retirement. More than half of the survey respondents plan to work past age 65, with nearly as many planning to work after they retire.

The good news is that preparing for retirement is not complicated. In fact, if you can avoid these seven costly mistakes you will be well on your way to a comfortable retirement:

1. Paying off debt before saving for retirement. Some popular financial pundits urge people to pay off credit card and other non-mortgage debt before saving for retirement. Such advice is arguably the most costly mistake a future retiree can make. While every situation is unique, such blanket advice misses the mark for two reasons.

First, the vast majority of a retirement nest egg does not come from the money you save. It comes from the compounding returns earned off of the money you save. Compounding requires time. Delaying retirement savings by even a few years can significantly reduce your savings decades later.

Second, with today's interest rate environment, it's easy to lower the rates on most debt. From mortgage refinancing to credit cards with 0 percent introductory rates, the cost of debt can be dramatically reduced while you work to pay it off.

2. Putting your child's education first. Helping your child through college is an admirable goal. However, it should not take priority over retirement savings. Like the advice flight attendants give us to put on our oxygen mask first before helping others, wrecking your financial future to help somebody else can have devastating consequences. Education financing at low rates is available, and college graduates have decades of working years ahead of them to pay off school loans and save for their own financial future.

3. Avoiding stocks. The stock market often feels risky because it's unpredictable in the short term. But over the long run stocks handily beat the returns of bonds. An asset allocation for retirement investing that's decades away should favor stocks. Even Warren Buffett suggests a portfolio heavily weighted in equities.

4. Paying excessive investing costs. How much do your mutual funds cost? If you don't know the answer, it's critical to find out. There are free online investment management tools that can show you your costs and how they affect your nest egg. All mutual funds report an expense ratio, which represents the percentage of your investments the fund will charge each year for managing your money. For low cost index funds, aim for expenses to be no more than 0.25 percent.

5. Treating your home like an ATM. One key to a financially sound retirement is to be debt-free when you retire. For many, the home mortgage and equity lines of credit are the stumbling block. While low-rate second mortgages and refinancing that extends loans back out to 30 years can be attractive, they come with long-term costs. Manage your home loans so they will be paid off when you retire.

6. Spending too much on cars. While this may seem out of place in a discussion about retirement, the cost of transportation can be a huge drag on savings. Simply driving a car for five years after it is paid off significantly reduces your lifetime cost of ownership. Investing that savings for retirement can increase a nest egg by six and even seven figures over decades of savings.

7. Not enrolling in your 401(k). Enroll in your company's 401(k) or other retirement plan on the first day of your new job. If the first day has passed you by and you're still not enrolled, sign up today. Even if you contribute a small amount each month, just getting started will get your money growing on your behalf.

Approximately 30 percent of eligible workers do not participate in their employer's 401(k). According to the Department of Labor, automatic enrollment (where your employer signs you up automatically) could reduce this number to 15 percent. If you were auto-enrolled, stay in the plan. If not, sign up today.

Rob Berger is an attorney and founder of the popular personal finance and investing blog, doughroller.net. He is also the editor of the Dough Roller Weekly Newsletter, a free newsletter covering all aspects of personal finance and investing, and the Dough Roller Money Podcast.

[http://finance.yahoo.com/news/7-costly-mistakes-ruin-retirement-143338335.html]