12 money mistake[s] that could cost you $1,000,00[0]

The Consumer Reports Money Lab puts a price tag on some commo[n] financial blunders and explains the best ways to avoid them.

1 Investing too conservatively during retirement
COST: $360,000 to $750,000

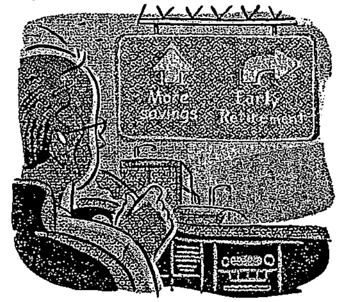
Conventional wisdom has long suggested that as retirees age, they should shift money out of stocks and into more stable investments, such as bonds. But the problem with bonds is that their annual returns may barely keep pace with inflation, while stocks, over time, typically provide returns significantly above inflation. And inflation can be a retiree's worst enemy.

The Consumer Reports Money Lab and Ibbotson Associates, a Chicago investment-research firm, analyzed how well a range of stock-and-bond portfolios would have performed, using data from 1940 through 2006. We assumed that our hypothetical investor retired at 65 with $500,000 in savings to invest. Some 17 percent of workers 55 and older say their households have saved that much for retirement, not including the value of their home or any defined-benefit pensions, according to a 2007 survey by the Employee Benefit Research Institute in Washington, D.C. We also assumed withdrawals at 3 percent each year during retirement and adjusted returns for inflation (as we did with other multiyear calculations in this report).

Overall, we found that an asset mix leaning more toward Standard & Poor['s] 500 stock index than bonds provided b[ig]ger returns and annual cash draws. O[n] average, over a variety of 20- and 35-y[ear] periods from 1940 through 2006, an all-stock portfolio provided our invest[or] with $750,000 more than an all-bond one. If we had started with less mone[y], $250,000, the advantage of all stocks over all bonds was about $360,000.

What you can do. Weight your ass[et] mix as heavily toward stocks as your comfort level allows. If all-stock gives you the willies, consider, for example, 80/20 or 70/30 stock/bond mix.

2 Retiring before you need to
COST: $237,000 to $309,000



Early retirement may be fun to fantasize about, but it can come at a huge price. For starters, you'll be giving up income you would have earned during what might be the best-paid years of your career. What's more, Medicare won't cover you until age 65, so you might have to buy individual health insurance at an age when costs are apt to be at their highest. And each year you postpone is one less year your savings will need to support you.

We assumed our hypothetical worker had the median U.S. household income for his age group of $54,592. He quit working in 2008 at age 62, as soon as he could start collecting Social Security. That cost him four years of income (including 4 percent annual raises) that he would have earned until he reached his full retirement age of 66, or $221,665.

Next, we asked the Social Security Administration how much his benefits would be reduced if he had retired at 62 vs. 66. The answer was $403 a month for life. If he lives to age 78, that will cost him $8,899; to 85, $42,751. True, the equation would change somewhat if he took early benefits and invested them, but few retirees have that luxury.

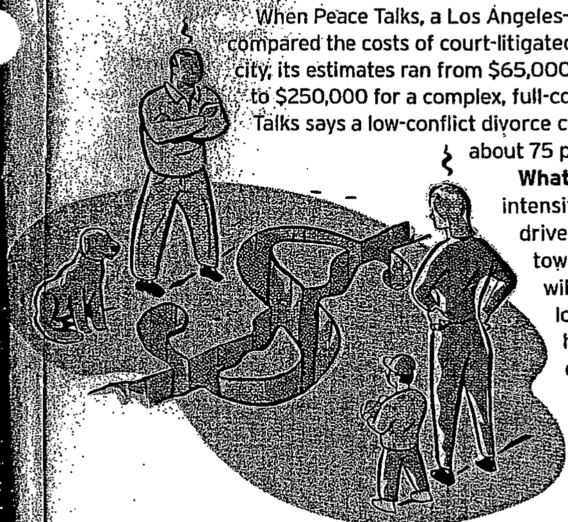
Finally, we solicited price quotes for health insurance from Blue Cross/Blue Shield of Illinois. Premiums ranged from $6,501 to $44,958 over three years, depending on coverage limits and deductibles.

What you can do. If you're in good health and have a choice about when to retire, try to wait until full retirement age.

3 Launching a divorce war
COST: $49,000 to $188,000

Spouses can't always avoid a divorce, but they can take steps to reduce the financial impact. Hiring a lawyer can be a good idea to make sure your interests are represented. But the more issues you want to slug out, the more billable hours you'll run up. (The rate in big metro areas such as Los Angeles can be $475 an hour.)

When Peace Talks, a Los Angeles-based mediation service, compared the costs of court-litigated and mediated divorce in that city, its estimates ran from $65,000 for a limited contested divorce to $250,000 for a complex, full-courtroom smackdown. Peace Talks says a low-conflict divorce can generally be mediated for about 75 percent less than going to court.



What you can do. Because the intensity of the conflict is a major driver of legal costs, work more toward diplomacy than war, which will increase the viability of the low-cost mediation option. Try hardest to get along on custody, often a hot-button issue. Property settlement is a Solomon-like 50-50 split in most states.

4 Underinsuring your home
COST: $16,000 to $194,000

Even with the recent retreat in home prices, if you've lived in the same house for 10 years, it's likely to be worth 54 to 104 percent more than you paid for it, depending on where you live. But if you haven't updated your homeowners insurance and disaster strikes, you could lose those gains.

All told, 55 percent of residential property in the U.S. is undervalued for insurance purposes, according to Castle Inspection Service, which conducts valuations for insurance companies. The average shortfall: 28 percent.

Using metropolitan area home prices as tracked by the National Association of Realtors, we picked a $71,700, median-priced home in Elmira, N.Y., and an $865,000 one in the San Jose, Calif., area. We subtracted the value of the land, which is theoretically indestructible, and multiplied the remainder by that 28 percent shortfall.

What you can do. Ask your insurer to reassess your home's replacement cost and adjust coverage accordingly. Buy an inflation-guard endorsement. Make sure your policy would pay to rebuild to the current housing code where you live.

5 Overpaying for your mortgage
COST: $27,000

The annual percentage rates on mortgages in a given area can vary by close to a percentage point. That might not seem like much, but over a 30-year term, it adds up to a bundle.

HSH Associates, which publishes mortgage data, told us the range on 30-year fixed-rate mortgages in New Jersey last November was 5.875 to 6.625 percent. We applied that to a purchase of a $299,000 home, assuming a 20 percent down payment and $239,000 mortgage. Over 30 years, the higher-priced mortgage would cost $360,000, while the lower-priced one cost only $333,000 in 2008 dollars.

What you can do. Shop for the best mortgage rate by checking local banks, your credit union, big-lender Web sites, mortgage brokers, and mortgage-related Web sites such as *www.hsh.com*.