DESCANT
FINANCIAL PARTNERS
An Independent Financial Planning Firm

Don't Make These Retirement Planning Mistakes

It really doesn't take much to derail a retirement plan. Most of the errors in planning for retirement are those of neglect, omission or panic. We're here to help you review your overall retirement options and give you some ideas where to start.

Here are some common mistakes people make:

Failing to start: It is amazing how many people find so many excuses never to start saving for retirement. But no matter how daunting debt or other spending priorities seem, you have to save for retirement on a regular basis, even if it's only a cursory amount. Over time, those small assets have the potential to grow to something considerably larger.

Failing to link planning for your at-work and personal retirement portfolios: One of the critical problems in retirement planning comes from failing to treat the investments you make at work versus the ones you make independently as a unified whole. That's why we request updated statements from your retirement accounts periodically to help select investments that are aligned with your overall portfolio.

Failing to evaluate a prospective employer's retirement options: Benefits can be worth as much as a nice paycheck. It's possible you might be working for a company that still offers a traditional defined benefit pension plan in addition to a 401(k) plan. If you think you're going to get an offer, it's wise to interview prospective employers on the benefits side of what they're offering you – particularly the timeframes on when those various benefits kick in. Above all, company matching of any assets you place in your retirement funds is key as well as the vesting period for making those assets your own.

Failing to consider both kinds of IRA's: The biggest difference between a traditional IRA and a Roth IRA is the way Uncle Sam treats taxes on both types of IRA investments. If you put money in a traditional IRA, you'll be able to deduct that contribution on your income taxes. In a Roth, you don't receive the tax deduction for those contributions, but when it's time to take the money out, you won't have to pay taxes on it. If you and your spouse are not covered in workplace plans, you may be able to fund fully deductible IRA's. We would be happy to help you determine if you're eligible for either type and if so, to weigh the pros and cons of each to make a decision on which one is best for you.

Failing to update your beneficiaries: Starting in 2007, a direct transfer from a deceased employee's IRA, qualified pension, profit-sharing or stock bonus plan, annuity plan, tax-sheltered annuity or a 403(b) plan to any qualified IRA can be treated as an eligible rollover distribution if the beneficiary is not the deceased's spouse. That means your children or any other designated recipient can inherit your IRA(s) without negative tax consequences at that time. Non-spouse beneficiaries need to check with a tax professional when they must begin distributions from an inherited IRA. Of course, no matter what the investment, make sure your beneficiaries are always current.

Failing to reinvest your tax refunds: Did you know you could deposit your tax refund directly into your IRA? It works for a health or education savings account as well. While many people use their tax refund as a bonus to buy a treat or pay off bills, consider filing your taxes a bit early and arrange to e-file a direct deposit to your IRA so you can note that deposit for the previous tax year. Of course, if you are retired already and have no "earned" income, then you may not be eligible to contribute to a traditional IRA but may be able to contribute to a Roth IRA. See us for eligibility details.

Withdrawing money early from an IRA or blowing a rollover: Money taken out of an IRA is subject to income taxes and a 10% IRS penalty tax if you are under 59 ½ years of age and do not put it back into an IRA within 60 days. When moving assets, most of the time a trustee-to-trustee transfer can be more efficient and with less margin for error. If the IRA distribution check is made payable to you, there is a greater chance you'll miss the 60-day deadline and you'll face taxes and penalties.

Failing to contribute the maximum: We understand that not every employee can afford to contribute the maximum allowed to their respective work or individual retirement plans, but it should be a goal of everyone to contribute some portion for their future retirement needs.

Please call us if you would like assistance in reviewing strategies to assist you in developing your own plan for retirement.

Please note, changes in tax laws may occur at any time and could have a substantial impact upon each person's situation. While we are familiar with the tax provisions of the issues presented herein you should always consult with a tax or legal professional on tax and legal matters.