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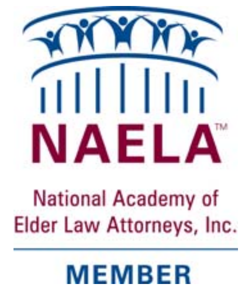

Ten Ways to Wreck Your Retirement

Personal retirement accounts are a valuable tool in building a retirement nest egg. The recent fall in the stock market has caused some savers to cash out their savings. This is unfortunate because the stock market has rebounded after every fall, and those who are not in the market at the bottom will lose out as it rises. There are other practices that can derail even the best laid retirement plans. This study by the National Center for Policy Analysis addresses 10 of them. Here is the summary issued March 26, 2009:

Executive Summary

Don't Make Saving a Habit. Young workers may think they have plenty of time to save later, but setting aside a little bit of money on a regular basis throughout one's working years produces a greater nest egg than setting aside a large amount later on.

Leave Matching Funds on the Table. Not taking advantage of an employer's matching contributions to a 401(k) account is like turning down a raise. An employee who turns down a dollar-for-dollar 401(k) account match of up to 5 percent of his salary is passing up a 5 percent bonus paid with untaxed dollars.

Borrow against 401(k) Savings. This is a surefire way to set back one's retirement plan by thousands of dollars through lost compound interest. A $25,000 loan today can cost more than $175,000 in lost retirement interest income over 30 years!

Cash Out 401(k) Savings. Cashing out a 401(k) account when changing jobs means that more than one-third of the balance can be eaten up in taxes and penalties.

Jump In and Out of the Market. In 2008, 401(k) plans lost an estimated $2 trillion in value. But this "loss" would have been on paper only, were it not for the fact that many workers essentially locked in their losses by selling their equity funds during the recent downturn.

Rely on Home Equity. Purchasing a home and selling it years down the road does not always produce a significant profit on which to retire. Even before the housing bubble burst, the average home was a mediocre investment. One dollar invested in stocks in 1963 would have grown to $12.36 by 2006, while the same dollar invested in a house would have grown to only $1.79.

Do Not Diversify Savings. Relying on one type of investment is a recipe for disaster. It is important to consider diversifying among asset types (stocks, bonds, money market funds), as well as diversifying within each type of asset (rather than holding one stock or bond).

Underestimate Longevity. More people are living longer. This means that retirees should have strategies to ensure they don't outlive their money, including working past retirement age, annuitizing retirement account money, and staying at least partially invested in stocks.

Ignore Inflation. When a household's income, combined with half of their annual Social Security benefits, exceeds a certain threshold, a portion of their Social Security benefits are subject to federal income taxes. The thresholds are not indexed. Over time, inflation pushes more and more retirees into the income range where they must add 50 cents of benefits to their taxable income for every dollar their income exceeds the threshold. This means their marginal tax rate will be 50 percent higher!

Stay in Debt. Entering retirement debt-free is essential to being able to maintain a comfortable standard of living.

For counsel about strategies that may help you secure your financial future, call Richard Courtney at 601.987.3000 or toll-free at 866-ELDERLAW (353.3752).