FPA FINANCIAL PLANNING PERSPECTIVES

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. If you don't know exactly where your retirement plan stands, get some advice – a CERTIFIED FINANCIAL PLANNER™ (CFP®) professional is a good start – to 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 retirement savings. 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 will 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. Working with a financial planner can help you look at every place you're putting your money and finding out if you're implementing those assets in the right way.

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 pension benefit 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 IRAs: 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 IRAs. Talk to a tax professional or a financial planner about which options are 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, 403(b) plan or a governmental deferred compensation 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 kids or any other designated recipient can inherit your IRAs without negative tax consequences at that time. Non-spouse beneficiaries need to check with a tax expert 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 2007 tax year by next April 15.

Withdrawing money early from an IRA or blowing a rollover: Money taken out of an IRA is subject to income taxes and a penalty 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. Not every employee can afford to contribute the maximum allowed by their respective work retirement plans or individual retirement investments, but it should be a goal.

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