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Five Retirement Savings Missteps

At Adviser Investment Management we've helped hundreds of clients get their retirement savings accounts in good order. We've seen all the mistakes listed below (and more) and have made it our goal to help clients develop the most effective strategy for their needs and relieve them of the ongoing burden of managing their own assets, so they are able to fully enjoy retirement and not worry about outliving their financial assets.

Vanguard recently featured a podcast on their website entitled "Five myths about retirement investing," which discusses some valid points, but falls short on several others (such as recommending target-retirement funds). We thought we'd supplement it with our list of five retirement savings missteps.

The Road to Retirement. Nearly 70 million baby boomers will be reaching retirement age over the course of the next decade, life expectancies are rising, and the cost of health care is skyrocketing. What does it all mean?

For those of us now in or approaching retirement, it means that managing your retirement savings and planning for the future are more important than ever. Unfortunately, many investors end up jeopardizing their future financial security with mistakes in managing what they've painstakingly accumulated in retirement savings. To help you avoid making many of the same mistakes, we've put together a list of five easily avoidable errors that we at Adviser Investment Management help our clients sidestep while saving, investing and planning for their retirement.

Taking a "Do Nothing" Approach. In an ideal world your company offers you a bounty of well-managed, low-cost funds in your 401(k) or 403(b) retirement plan, giving you plenty of choices for putting together a diversified portfolio. But the reality is that many 401(k) and 403(b) plans do not offer much choice, let alone low-cost funds. By doing nothing and leaving your hard-earned investments in an account with limited and expensive investment options, you are unable to fully maximize your retirement savings and implement the most effective strategy for your needs.

What's the easy solution? Moving your assets into a Rollover IRA when you retire will give you the same tax-free savings and investing power, but with lower costs and much greater choice.

Cashing Out. You can cash out of your 401(k) or 403(b) when you retire, or take a lump sum when you switch jobs, if you so desire. However, taking a lump-sum distribution can be costly. When you make withdrawals from your retirement plan, you pay income tax on the entire value of the distribution, as all withdrawals from a 401(k) or 403(b) are taxable—since your contributions were made pre-tax, the government wants to reclaim its share of both your savings and any gains you've made over time.

And, if you're under 59½ years of age, it becomes even more costly to take withdrawals because you will not only be taxed on the distributions, you are also subject to a 10% penalty for making an early withdrawal.

Finally, it's also possible that by taking a lump-sum distribution you'll bump yourself into a higher tax bracket, making the transaction even more dear. All of these factors figure into the advice that we regularly give our retiring, and job-hopping clients.

Relying Too Much on Company Stock. You should only have to read one word to know exactly how costly this mistake could be: Enron. Not only did the folks working for the mismanaged energy firm lose their jobs, they lost all of their retirement savings when the company collapsed. If you want to make your company's stock part of your retirement portfolio that's fine, just keep that portion of your portfolio small enough so that if the worst happened, your future financial wellbeing will still be secure.

Failing To Contribute Enough. While it can be hard to deprive yourself of your hard-earned cash in the short-term by contributing the maximum to your 401(k) or 403(b), how much harder do you think it would be to face having to look for another job to meet expenses after your so-called retirement?

Saving as much as you possibly can while still employed is your best defense against running out of funds after you've stopped working. And the more you have invested, the greater your potential earnings. We always recommend that our clients contribute as much as they can, if not the maximum, to their retirement savings plans for this very reason. (Many companies also have matching funds policies, where, up to a certain amount, they'll match your contribution to a 401(k) or 403(b)—if you're not investing, that's free money swirling down the drain.)

Remember, the power of compounding is a powerful investment tool. The more money you have working for you in your retirement account, compounding gains upon gains, year in and year out, the bigger the nest egg you'll have to retire on.

Investing Too Conservatively. This is perhaps one of the most common mistakes investors make when saving for retirement or managing their IRA Rollover. The logic, wrong as it may be, is that because the money they're putting away is so crucial to their financial security in the future that it should be invested only in risk-free or ultra-safe funds. This can turn out to be a painful misconception as the adverse effects of inflation can erode the purchasing power of your retirement assets over time.

To succeed over the long term, it's essential to invest a sizeable

portion of your assets in stocks—there's no need to take wild risks, but your goal should be to grow your retirement portfolio over time and maintain the "real" value of your assets after accounting for inflation.

About Adviser Investment Management, Inc.

Adviser Investment Management, Inc. is an independent, professional money management firm specializing in Fidelity and Vanguard mutual funds. With 1,400 clients and \$1 billion dollars under management, Adviser is one of the nation's largest mutual fund research and money management firms. Our staff of 27 investment professionals focuses on helping individual investors, trusts, foundations, and institutions meet their investment goals. Our minimum account size is \$350,000.

For more information, please visit www.adviserinvestment.com or call 800-492-6868.

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