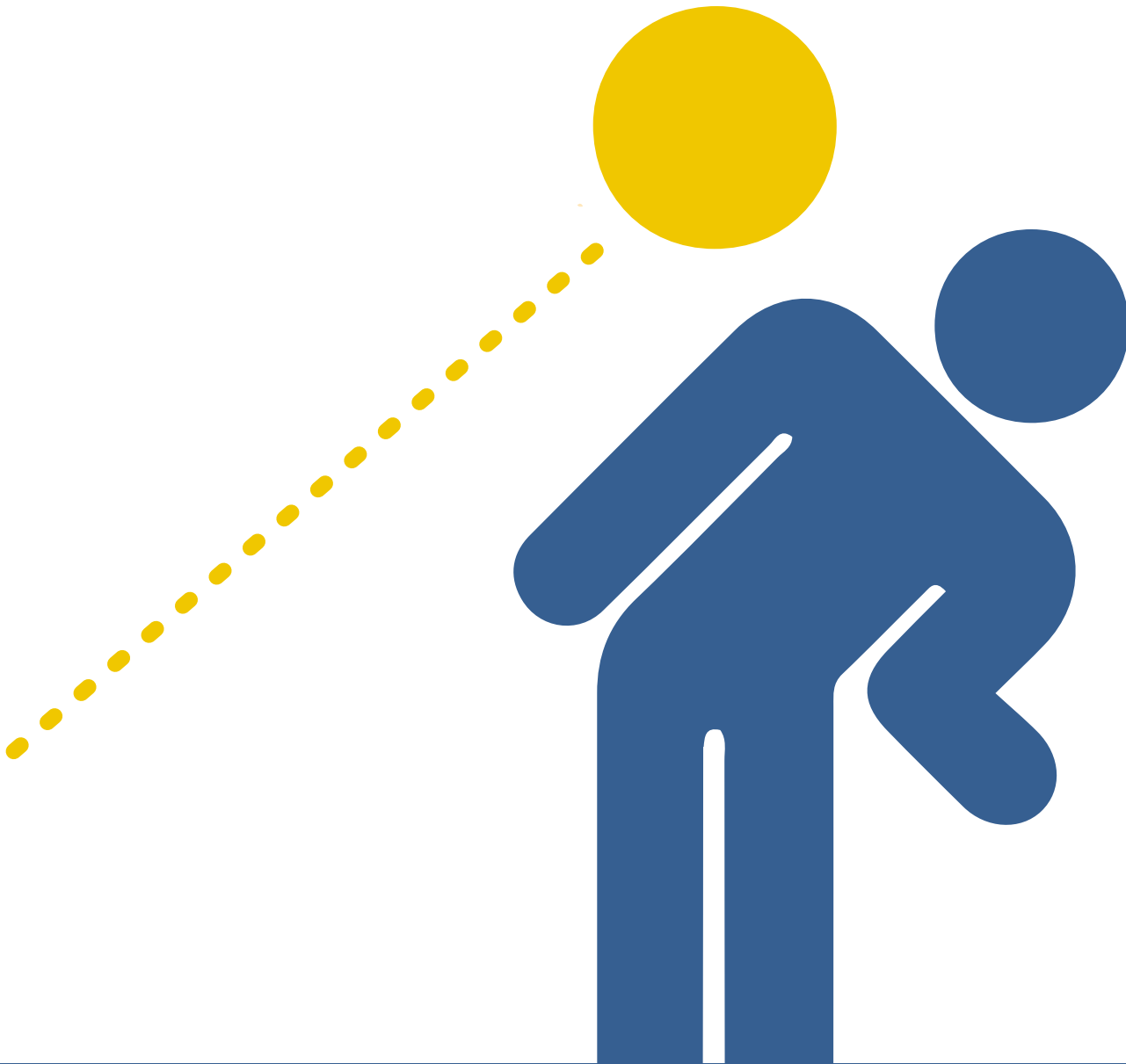


The Most Common **Mistakes Retirement Savers Make**

(And a Few Simple Ways to Avoid Them)



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The path to a secure retirement has changed. A few generations ago, retirement planning was simple. One worked for 30 years, usually for the same organization, and by 65 years old reached the ceremonial finish line. Life expectancies were about 7-10 years. A secure retirement was promised and provided through pensions, healthcare and social security. Time was often spent in year-round sunshine playing tennis, golf, or bridge, and then meeting friends at Tony Roma's for the early bird dinner at 4:30. This time in our history, what has been referred to as the "Golden Years", was golden because of its simplicity and comfort. Retirement was defined by an age and a promise.

Here we are today, just a few generations later, and the landscape of retirement has completely changed. Some might argue it has changed for the worse; some think it has changed for the better. With life expectancies reaching into the mid-late 80's, it's becoming common to see one's

retirement lasting 20 or more years. As more people reach their 90's and 100's, retirement can last as long as 40 years. For many, that equates to more time spent in retirement than time invested in the working years preparing for retirement. In addition, the average worker changes jobs every 2-3 years, so the ability to build long-term savings at any one employer is diminishing.

This poses a new challenge for today's retirement saver. With pensions disappearing, the future of social security in question, and longer life expectancies, retirement is almost completely on our shoulders. 81 million Americans now participate in some sort of retirement plan at work, putting part of their paycheck away for a time when they'll need it to replace their working income. These plans are commonly referred to as 401(k), 403b or 457 plans. For the sake of this report, we'll simply refer to all plans as 401(k).

There are several common mistakes people are making with their 401(k) that are easily avoidable. Avoiding these common mistakes is the difference between having a secure retirement and being forced to have a late-life career as a Wal-Mart greeter.

Mistake #1

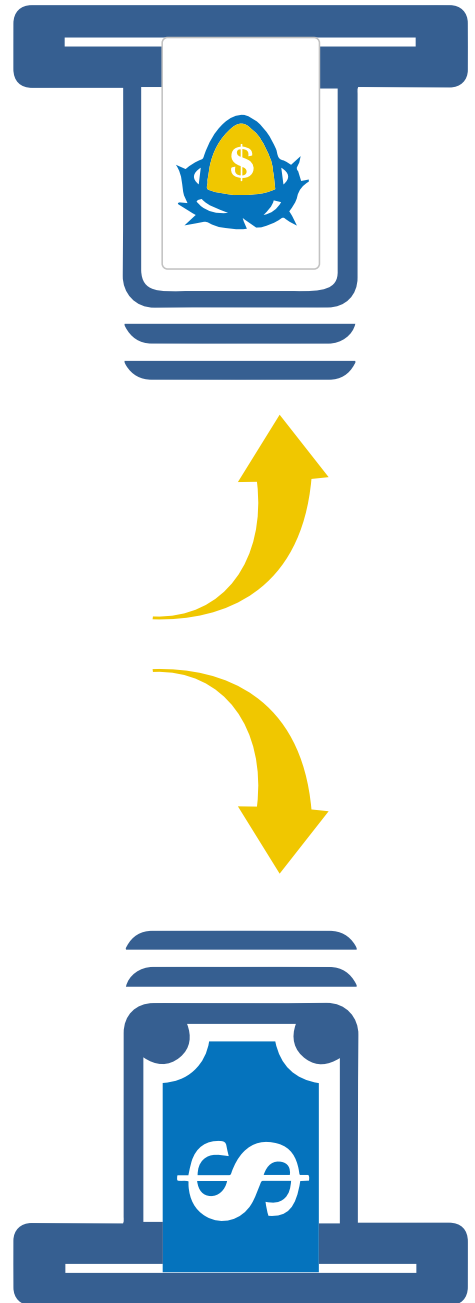
Cashing Out Your 401(k)

One of the worst things you can do with your 401(k) account is to cash it out. With so many people changing jobs every few years, the temptation to cash out a small 401(k) balance is very high. Recent data from Fidelity Investments, the largest 401(k) provider out there, shows that 35% of their plans' participants cashed out their accounts last year when leaving their jobs. Holy cow! That's frightening!

A 401(k) is supposed to be a retirement savings account; something to be there for you when you no longer work to produce income. It's not meant to be another savings account to accumulate money temporarily. That's what banks are for! With fewer Americans receiving the gift of guaranteed pension income in retirement, and the average Social Security benefit of about \$1,328 per month (that's only about \$15,900 annually), most of us need to be saving up lots of money on our own for retirement.

Fidelity also shared that among its plan participants in their 20s, 30s and 40s; the average cashed-out account balance was \$14,300. What would have happened if those dollars remained invested? Imagine a 35 year old worker who just changed jobs and was planning on retirement at age 65, giving herself 30 more years to save. If that \$14,300 was rolled into an IRA or her new company's 401k plan, and left alone for 30 more years, and it grew at the rate of about 10% (long-term historical average of the stock market), upon reaching 65, it would grow to nearly \$250,000! And that's without putting another dime into it. If \$5,000 were contributed each year along the way, the end result would be greater than \$1.1 million.

Cashing out a \$14,300 401(k) account to satisfy some short-term need is the most expensive way to get your hands on money. Not only will savers be faced with horrendous tax bills, but they will rob themselves of somewhere between a quarter million dollars and a million dollars for their retirement. Ouch!



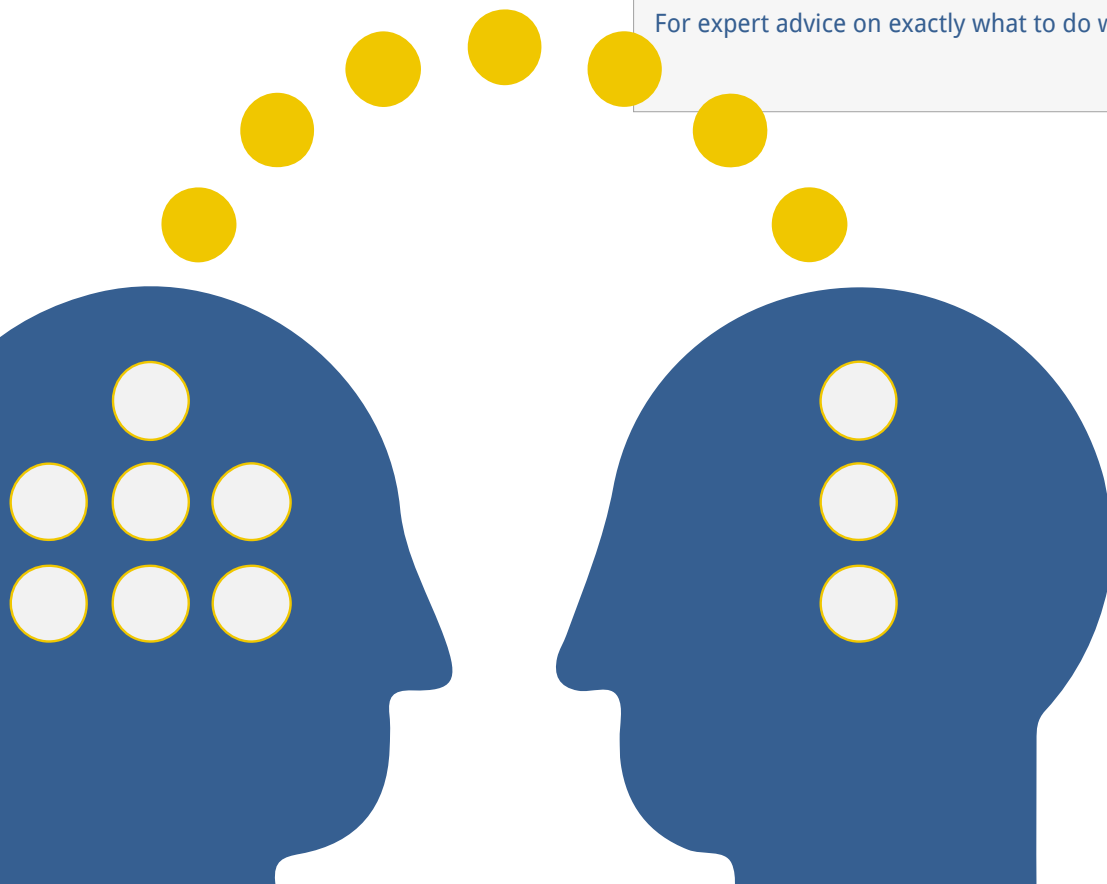
Mistake #2

Getting Advice from the Wrong Source

Nothing is more crucial to the success of one's 401(k) than getting the advice of a trusted professional. But there's a problem. The employer who sponsors the 401(k) legally can't give you advice. The 401(k) plan provider legally can't give you advice. What winds up happening is a retirement saver receives free "education" and then is forced to rely on his own skills as an expert investor to make the decisions about what to invest in and when to make changes to his plan. Who really has time for that?

Most wind up seeking financial advice from friends and family members. Except even the most well-intentioned and insightful advice does not replace that of an investing expert, accountant or other retirement finance authority to aid with critical decision-making that will impact the entirety of a retiree's life. Quite often retirement savers do not know where to turn.

For expert advice on exactly what to do with the options inside your 401(k),
▶ [click here.](#)





Mistake #3 Underestimating Inflation

Do you remember how much a postage stamp cost in 1990? 25 cents. Today a stamp costs 49 cents. That's almost a 100% increase in the cost of a stamp in the last 25 years. If your 401(k) nest egg is not earning enough to stay ahead of inflation and taxes, your retirement lifestyle is likely to get scrambled well ahead of its time. For your money to buy you the same amount of stamps today as it could have in 1990, your money would have to be growing better than 3% per year. With most treasury bonds and CD's paying well below 3% today, it's critical to explore equities and equity funds to stay ahead of long-term inflation so your money can buy you what you need in retirement. The scary part is that things like food, healthcare and prescription drugs are increasing in cost at a much greater inflation rate than postage stamps.

For expert advice on exactly what to do with the options inside your 401(k),
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POP

Mistake #4 Operating on Auto-Pilot

As critical as it is to invest a portion of your retirement savings in equities to maintain your purchasing power in retirement, you have to know what you're doing to be successful. This isn't for amateurs, as owning equities can be risky business if you don't know what you're doing. Many retirement savers fail to properly adjust the investment vehicles in their portfolio as market conditions change. As a result, many of the big 401(k) providers have offered a solution to the old static approach of "buy and hold" called Target Series Funds. These funds are designed to automatically adjust your portfolio each year as you get closer to retirement. In theory, this is a good idea. But, who in their right mind would ever board an airplane

that can only operate and adjust course with its auto pilot feature? We still want a Captain in the cockpit, right?

The same can be said about your retirement savings. It's a huge mistake to leave your retirement savings on auto pilot in a Target Series Fund. Here's why:

As you move closer to your retirement date, Target Series funds automatically shift your money from stocks to bonds, giving you the perception that your money is being moved into safer asset classes. Nothing could be further from the truth. Bond prices are at all-time highs and the majority of thinkers on Wall Street today believe the bond market is a huge bubble waiting to pop if interest rates move higher. Imagine having all of your assets slowly shifted to bonds and then two years before you're ready to retire, POP! The bond market implodes and you're left with half of what you were expecting to retire on. This is the risk you assume when you leave your retirement savings on auto-pilot in a Target Series Fund.

By the way, one of the largest and most widely selected Target Series Fund, the Fidelity 2020 Fund, was down over 30% in 2008. That means if you had \$1,000,000 in your 401(k) allocated to that fund, by 2009 it would have been worth less than \$700,000.

For a better approach to flying your 401(k), with a pilot hand flying the plane in an attempt to minimize turbulence, ► [click here.](#)

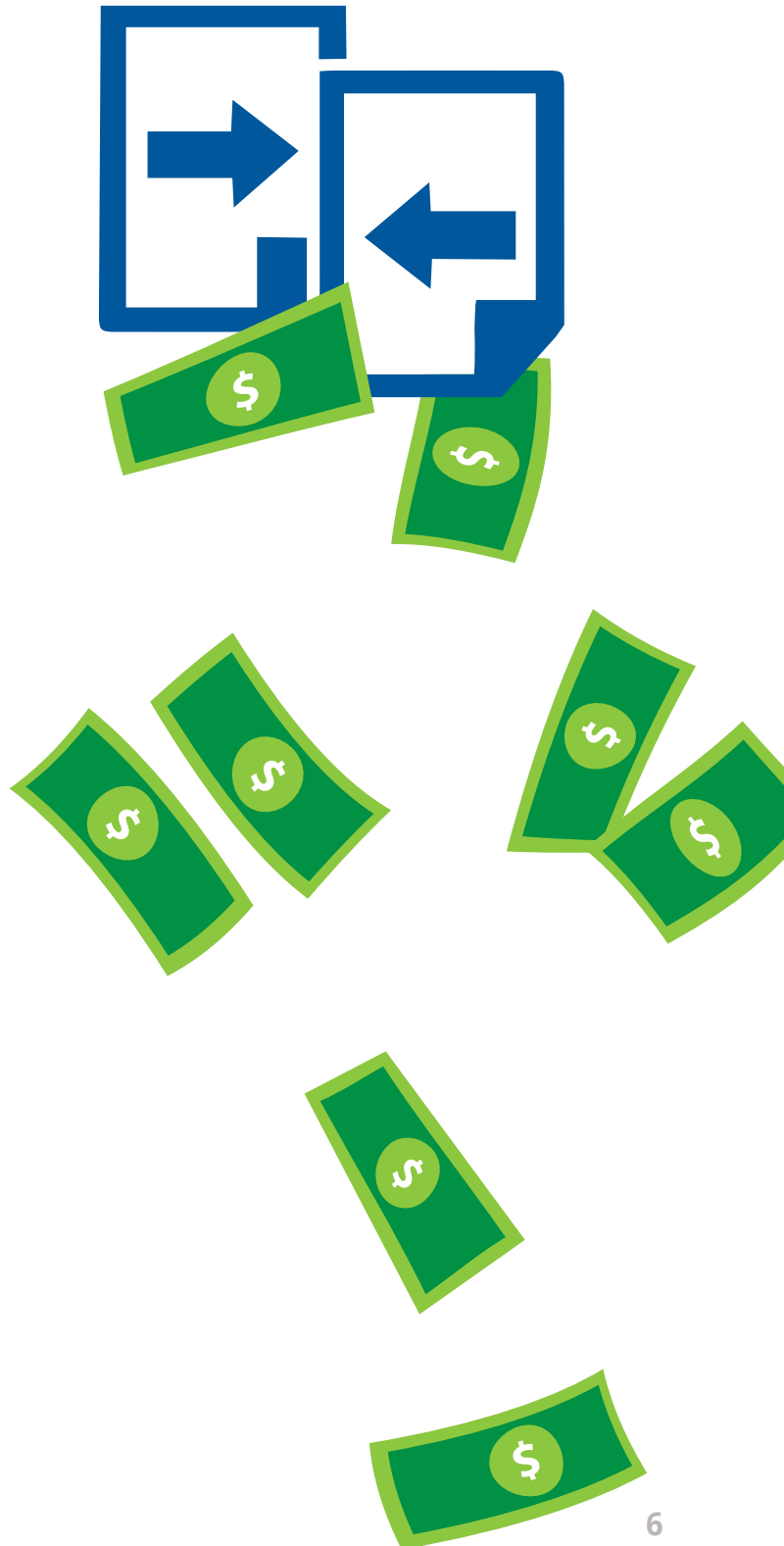
Mistake #5

Missing Out On Free money

One of the biggest 401(k) blunders is not taking full advantage of money that your employer is willing to contribute to your account. Many employers match any contributions that you make on your own behalf up to a certain amount (usually 4-6%). This is free money from your employer, and it's worth the minimal effort to claim it.

Some employers also make profit sharing contributions on an employee's behalf based on a percentage of your salary. Most of the time, you don't need to do anything to receive profit-sharing contributions. But with employer matching, it's critical to save at least enough to maximize the amount of your employer's contribution. Typical 401(k) plans will include provisions that match half of your contributions up to a maximum of 6% of your total salary, but some are much more generous, matching your contributions dollar-for-dollar or providing matching on even higher percentages of your total pay.

By not contributing at least the minimum amount to get the company match, you're leaving free retirement savings dollars on the table. Even a small amount of employer match of \$500 a year can add an additional \$100,000 to your savings balance over 30 years.



Mistake # 6 No Plan, Stan

Retirement savers often lack a financial plan that includes estate planning, budget, etc. for both the short and long term to avoid problems and capitalize on all financial opportunities. According to the National Association of Unclaimed Property Administrators, state treasurers currently hold \$32.9 billion in unclaimed bank accounts and other assets. According to the U.S. Department of Labor, \$850M in 401(k) assets go unclaimed each year.

It is critical that 401(k) savers review their beneficiary designation on their plan often so that their assets wind up going where they want in the case of unexpected or early death.

For more information on how you can plan for a retirement on purpose, contact:



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