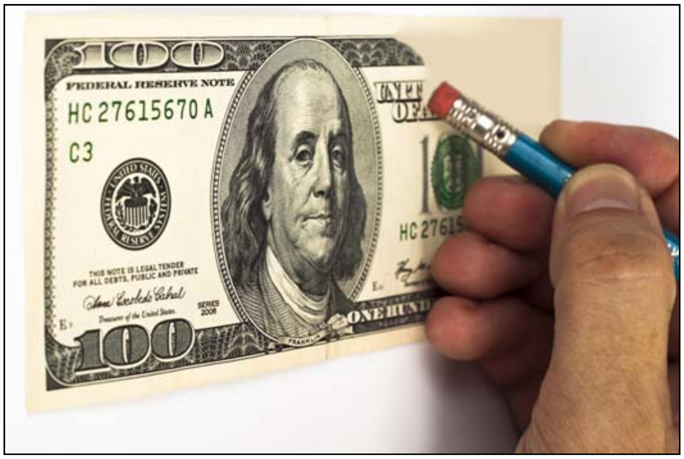
5 Retirement Mistakes You Can Fix

To err is human, but some mistakes are worse than others, and slip-ups that occur while you're planning for retirement can come back to haunt you financially.

But it may not be too late for you to fix some common mistakes. Here are five prime examples:

1. Saving too little. It seems obvious, but not setting aside enough money could become a big problem if you underestimate the amount you'll need to live on—all the more likely as life expectancies continue to rise. So if your employer offers a 401(k) plan with matching contributions, try to take full advantage of it, even though your take-home pay will be reduced by deferrals. And you can supplement these savings with IRA contributions.

2. Starting too late. From the start of your career there are many financial priorities competing for a share of your salary. You may be saving to buy a home or to put your kids through school. Yet while early contributions to a retirement plan can produce outsized benefits, you may be able to make up for lost time if you put as much as the law allows into your retirement savings. For 2017, the maximum 401(k) deferral is $18,000 or $24,000 if you're age 50 or over. The IRA limit is $5,500 or $6,500 if age 50 or over. You also might decide to work a few years longer than you'd originally planned. That can boost your savings while reducing the length of your retirement.



3. Ignoring taxes. Taxes are an essential part of the retirement planning equation. When you take money out of your retirement plans you'll likely owe federal and state income tax on those distributions. Part of your Social Security benefits also is subject to taxation. And your tax rate during retirement might be higher than you expect if you don't get some of the deductions you were able to claim while you were working. Factoring in taxes when you plan for retirement will help you create a more realistic scenario.

4. Not diversifying your investments. While you've undoubtedly heard about the benefits of spreading your investment dollars across many kinds of holdings, it's often tempting to stick with investments that have been doing well for you. But there's no guarantee that gains on a particular stock or fund will continue, and creating a diversified portfolio can help reduce the risk that you'll be hurt by losses in one or two investments. Just keep in mind that diversification doesn't provide guaranteed protection, especially in declining markets.

5. Ending retirement planning when you retire. Even after you retire you'll have important decisions to make. You'll need to make sure your portfolio stays diversified, and you'll likely need to allocate some money to stocks or other investments that may help you keep pace with rising costs.

Maybe the biggest overall mistake you can make is assuming you know it all. Reach out for expert assistance to avoid the common traps. ●

Sticking With The Fundamentals

When financial advisors explain the reasons to invest in, or not invest in, particular stocks, they often refer to the "fundamentals" of the companies in question. Media pundits also may cite "fundamentals" in their stock prognostications. And corporate officers may brag about their companies' "fundamentals."

But what does it all mean? They're generally referring to fundamental analysis, a traditional school of thought in looking at companies' basic numbers as a way to evaluate profitability.

Unlike technical analysis of a company, which focuses on the recent trading and pricing history of the company's stock, fundamental analysis paints a broad picture of a company. This process identifies the fundamental value of the shares and leads to decisions to buy or sell the stock.

With technical analysis, you're trying to spot patterns that will help predict whether the fortunes of a company will rise or fall. In contrast, fundamental analysis involves profit margins, management decisions, growth potential, balance sheets, a company's role in a specific industry or sector, and political and other events, domestically and globally, that might affect its performance.

But fundamental analysis isn't limited to figuring out which stocks to buy and when to buy them. It is also about analyzing the timing of possible sales or purchases.

For example, when the stock market is booming, as it was at the start of 2017, investors are quick to jump on the bandwagon, while during times of stock market decline, the same investors often flee in a panic. That's what happened in 2008 and 2009, when the economy contracted and share prices fell by more than half. Of course, there are times when it makes sense to sell stocks, but it is best not to base such decisions based on fear.

A better idea is to take a closer look at the fundamentals. In doing so, you might

Spell Out Plans For Inherited IRA Assets

Do you have substantial assets in your IRAs? It's important to be smart about beneficiary designations, and maximizing tax benefits, while avoiding potential pitfalls. But it's also essential not just to fill out all of the paperwork and forget about it. Instead, take the time to discuss your plans with family members.

Spouses who inherit traditional IRA assets have more flexibility than other beneficiaries, though non-spouses, too, can benefit from careful planning to determine the best ways to pass along money in an IRA. Here are key points to cover in your family discussions:

The first thing to do is to bring everyone up to speed on the differences between spouses and other beneficiaries.

1. Spousal beneficiaries: Spouses who are IRA beneficiaries can move the money into their own IRAs and treat it just like other assets in those accounts. They can do this without owing any tax, and if they haven't yet reached age 70½, they won't have to take the required minimum distributions (RMDs) that must begin after you reach that milestone. (But if your spouse who died already was taking RMDs, you'll need to make that withdrawal for the year of death.)

That doesn't mean a spouse can't withdraw some or all of the money in the inherited account. But any distribution will be taxed, probably as regular income. So it's generally better for tax purposes to take a series of distributions stretched over several years.

2. Non-spousal beneficiaries: If you bequeath IRA assets to your children or to anyone other than your spouse, those beneficiaries will have to follow different rules. They can't roll over the money tax-free into IRAs of their own. Instead, they must arrange to receive a series of distributions based on their life expectancies or empty out the inherited accounts within five years. Because beneficiaries tend to be younger than the deceased IRA owner, they often can use the strategy of withdrawing funds gradually over their life expectancies, an approach often referred to as a "stretch IRA."

But those non-spouse beneficiaries *will* have to take annual RMDs regardless of how old they are. Because the amount of those yearly withdrawals depends on the inheritor's age, younger beneficiaries will be able to take smaller RMDs than those who are older. But if they fail to take an RMD in any year they'll be hit by a penalty of 50% of the amount that should have been withdrawn. They'll also owe regular tax.

The amount of these RMDs will be based on the account balances on December 31 of the prior year and a factor based on the beneficiary's projected life expectancy in IRS-prescribed tables. You have until December 31 of the current year to receive your RMDs, which generally will be calculated and paid out by the custodian of your IRA.

Of course, non-spousal beneficiaries, too, can choose to withdraw more than the required amount or to take a lump-sum distribution of everything in the account.

With these basic rules in place, there can be several strategies to maximize tax and other benefits. For example, naming younger beneficiaries could extend the life of a stretch IRA and reduce the amount that is lost to taxes. One way to do that, if your children don't need the funds, is to designate your grandchildren as beneficiaries. Or you could name a child as a primary beneficiary and a grandchild as a contingent beneficiary. When you pass away, the child would have the option to "disclaim" the inheritance, passing it along to the contingent beneficiary and thus lengthening the payout schedule. As long as assets remain within the IRA they won't be subject to current taxes.

The family members who inherit IRA assets then can make their own beneficiary designations immediately, selecting a spouse or a child to inherit the account. Your beneficiaries also will be able to avail themselves of strategies for extending the life of the IRA.

These rules cover assets in traditional IRAs. There are different requirements for Roth IRAs, from which most distributions, even by beneficiaries, are tax-free. The original account holders don't have to take RMDs, although beneficiaries are required to withdraw money each year according to schedules based on their life expectancies. ●

ask—and get answers to—these questions after a market decline has pushed down the price of a particular holding:

- Is the business model still solid?
- Have profit margins remained consistent?
- Is the company financially sound?
- Is the company likely to thrive over time?

If the answers are "yes," you may be well-served to retain your shares in the company for the long term. However, if the firm appears to be heading in the wrong direction, has shrinking profit margins, and sports a business model that is out of touch with changes in the industry, you probably should sell sooner rather than later.

Of course, you don't have to pour through financial reports and other documents to guide your decisions. If you invest in mutual funds, their professional managers are doing this work for you, analyzing company fundamentals to help them decide what to buy or sell to maximize their funds' performance. And we routinely help clients investigate stock fundamentals as they shape their portfolios. Please give us a call if you'd like to discuss your current and potential holdings. ●

This Plan Is Just For Nonprofits

If you work for a nonprofit organization—a hospital, school, or government agency, among many other kinds of groups—you can't participate in a 401(k) plan as a way to save for retirement. But not to worry: Many nonprofit employers offer 403(b) plans, which closely resemble 401(k)s and also can help you put away pre-tax dollars to fund your life after work.

Although there are a few important differences between the two kinds of plans, 403(b)s are quite similar to 401(k)s. You contribute to a 403(b) plan account on a pre-tax basis through salary deductions, just as you would fund a 401(k). Your contributions are invested and can grow and compound without being eroded by current taxes. Distributions generally are taxed at ordinary income rates.

Some organizations that offer 403(b)s also may give you the option of contributing to a Roth-type account that uses after-tax dollars for contributions but provides tax-free distributions during retirement.

The IRS limit on annual contributions to a 403(b) is the same as for 401(k) plans, and also is indexed for inflation. In 2017, you can contribute up to $18,000, plus another $6,000 if you're age 50 or over, for an annual maximum of $24,000. But there's an extra wrinkle for 403(b) plan participants. If you have worked for the same nonprofit for at least 15 years, you also can contribute up to an additional $3,000 a year—beyond the normal limits—for five years if your previous contributions have averaged less than $5,000 per year. That perk for 403(b) plans is unique and not available to participants in 401(k) plans.

Employers also may make contributions to 403(b) accounts, just as many companies provide matching contributions to 401(k)s.

One drawback of 403(b) plans has been a tendency to offer fewer investment choices than you would have in a 401(k) plan sponsored by a corporation. But that disparity is changing, and most 403(b) plans today allow you to choose from a wider variety of mutual funds, ranging from conservative to aggressive.

As in a 401(k) plan, if you make a withdrawal from a 403(b) plan before age 59½, it generally is subject to a 10% tax penalty, in addition to any regular tax owed. And in both kinds of plans, you must begin required minimum distributions after age 70½.

What happens if you quit, change jobs, or retire? Depending on your situation, you may roll over the funds in your 403(b) plan to a 403(b) or 401(k) at your new job, or to an IRA. Or you could decide to take a cash distribution, which will be taxable and could be subject to the 10% penalty tax for early withdrawals. ●

17 Midyear Tax Moves

(Continued from page 1)

wages are deductible by the business and taxable to your child at his or her low tax rate.

11. Qualified small business stock: Invest in qualified small business stock (QSBS) of a fledgling company (perhaps your own) and if you hold it for at least five years before selling it, you can exclude 100% of any gain.

12. Vacation homes: When you rent out your vacation home, you can write off specified rental activity costs, plus depreciation, but be careful: If your personal use of the rental home exceeds the greater of 14 days or 10% of the days the home is rented out, deductions are limited to the amount of your rental income.

13. Dependency exemptions: Generally, you can claim a $4,050 dependency exemption for a child graduating from college this spring if you provide more than 50% of the child's annual support. Figure out the amount needed to clear the half-support mark.

14. Charitable gifts of property: Give furniture and clothing in good condition to charity. You normally can deduct the fair market value of property donated to a qualified organization, within certain limits.

15. Dependent care credit: If you pay expenses for the care of your under-age-13 child this year while you (and your spouse, if married) work, you may qualify for the dependent care credit. Note that the cost of summer day camp qualifies, but not overnight camp.

16. Like-kind exchanges: If you swap investment or business real estate you own for like-kind property, the exchange is tax-free, except to the extent you receive any "boot" (e.g., additional money) in the deal. Caution: The IRS imposes timing requirements for this tax break.

17. Estimated taxes: Check to see if you're withholding enough income tax from your paychecks. Make necessary adjustments to avoid owing an "estimated tax penalty" in 2017. ●

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