WHAT FINANCIAL MISTAKES DO PEOPLE MAKE IN RETIREMENT PLANNING?

By Arvind Ven

Tell us what you do?

I spent many years in the technology industry as an executive running and growing businesses of medium to large companies. However, I always wanted to make a positive impact on people's lives using my financial knowledge, experience running successful enterprises and MBA in Finance. During this past holiday season, I received emails and cards from clients telling me how glad they are having me help with their retirement planning. That gives me a lot of happiness.

What financial mistakes do people make in retirement planning?

Studies indicate that two-thirds of Americans fear running out of money in retirement than death itself! While more money is better than less, many in the financial world seem fixated on total assets. While that is an important aspect, strategies for guaranteed income in retirement that will augment social security income--despite stock market ups and downs--are very important but not considered enough.

Other common mistakes are not planning properly for RMD (Required Minimum Distribution) withdrawals and underestimating the impact of drawing social security income sooner than needed.

People are living longer. Planning for increasing longevity and associated health care and long term care costs is very important. Another mistake, especially in stock portfolios, is the lack of diversification and of sequence of returns risk.

Can you walk us through the differences between a Traditional IRA and Roth IRA?

A traditional IRA is where you sock money away tax deferred either through your employer (401k), Self Employed (SEP-IRA) or you can contribute to a traditional IRA yourself if you don't have access to employer sponsored IRA's.

The ROTH IRA is after tax contribution but you cannot contribute if your annual household income is over $200,000. The good part of the ROTH is that there are no RMD's (Required Minimum Distribution) and the gains are tax free. Remember that there is a 10% early withdrawal for all types of IRA's if you take money out prior to age 59 ½.

Is there a difference between Financial Planning and Retirement Planning?

While both are closely related, there are important differences. Someone who is 60 and looking at retiring soon may have different needs and goals than someone in their 40's. I had alluded to 'Sequence of Returns risk'. This is especially important for retirees and for those in the retirement 'red zone' (5-10 years prior to retirement). In this type of risk, retiring into a down market can have significant risk of outliving your nest egg and that is not considered enough in planning.

We keep hearing about the 'demise of the stretch IRA' due to the recently enacted SECURE Act. How does it affect us?

Focusing on the stretch IRA alone which could be of most interest to AO50 readers, there is good news and not so good news. The good news is that RMD (Required Minimum Distribution) age is now 72 (from 70 ½ previously) for those turning 70 ½ this year onwards.

The not so good news is that the stretch IRA is now limited to 10 years to non spouse beneficiaries. Prior to the change, an IRA (traditional or ROTH) inherited by children or grand children had many decades to draw down the inherited IRA's based on their longevity tables. Now the time frame is 10 years.

***Note:** This write-up is for educational purposes only and should not be considered financial or tax advice. For questions about this educational piece, please reach out to Arvind Ven: 408.725.7122 or arvind.ven@lpl.com.*

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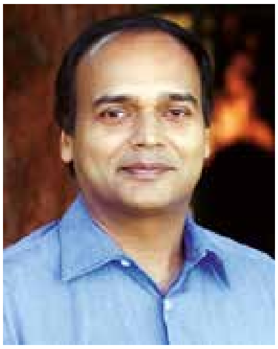

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