BANTA
ASSET MANAGEMENT

"We made too many wrong mistakes"
Yogi Berra

Starting Strong in 2012:
AVOIDING THE FIVE RETIREMENT MISTAKES THAT WILL HAUNT YOU

An enduring theme at Banta Asset Management is finishing well. What better way to finish well than to know how to avoid costly mistakes in managing your retirement income from typical errors such as listening to the wrong advice, and not being aware of future income needs or to simply not having a retirement plan at all. Below we identify five retirement mistakes and remedies to avoid the temptation and the trap.

Mistake One — "I'll Continue to Guess How Much I Need to Retire"

According to labor statistics, half of all workers continue to **guess** at the amount of money they need to save to feel financially secure when they retire and nearly 50% of American workers do not have a strategy to reach their investment goals. Of those who **do** have a strategy, only half factored in health care costs and one-fifth factored in long-term care insurance. Related fears include a reduction or loss in Social Security benefits due to uncertainty in the public policy domain.

Furthering the **mistake of guessing**, many approaching or in retirement are unaware of the portfolio value needed to generate the monthly income necessary to maintain their desired standard of living while also accounting for increased medical expenses associated with aging. Health care becomes paramount to retirement planning when the average costs can reach $300,000 for a couple in retirement.

Remedy – Avoid guessing and actively understand how your portfolio works to fund your **standard of living** and **all costs** associated with your health and living needs.

Mistake Two — "I'll Just Keep Working"

Too many people assume they will forgo retirement because of inadequate savings and continue to work past their desired retirement age. Research affirms that two in five people retire earlier than planned due to unforeseen circumstances, such as layoffs or illness. For those wanting to work part-time, other circumstances may play a role in minimizing or eliminating this possibility, ranging from underdeveloped skills, decreased stamina, to unexpected economic downturns.

Planning not to retire is ***not* a retirement strategy**. If you must work past the age of 65 this can be an opportunity to continue to earn viable income, especially to alleviate a retirement savings shortfall. However, if working later in life is a necessity, setting retirement savings goals and having a backup plan maintains a proactive, strategic approach to what will become the inevitable retirement.

Remedy – Maintain clarity of goals and target dates for retirement. If "work" is part of your retirement plan, continue a strategic approach to the finish line.

Mistake Three — "I'll Take a Loan Against My 401(k)"

Nearly one in ten workers with qualified retirement plans with their employers take a loan out against their plans; the most common is the 401(k). Nearly half of those taking such loans use the money to pay off debt. More than 10% use the money to buy a primary residence. Fewer than 10% use the money to pay medical bills or fund tuition expenses.

The problem with this type of "loan" is you are ***not*** borrowing from yourself. The reality is that most people do not repay "themselves" and are burdened with taxes and penalties. Additionally, borrowing from your retirement plan reduces the ability of those funds to garner interest, a loss that will compound.

Remedy – Avoid this type of risk at all costs simply for the penalty ascribed to this loan – you will rarely if ever return the retirement plan to its potential. Once again, proactive management of debt and future costs will minimize any invitation to "dip" into your 401(k).

Mistake Four — "I Don't Take Full Advantage of Benefits"

Too often workers **underfund their retirement portfolios** and leave money on the table. In fact, 40% of all workers are not saving enough to get their full employer match – up from 33% since 2008. Of participants under 40 in employer-matched programs, approximately 50% continue to fail to save enough to get their full employer match.

Even as the economy is in recovery and households have been forced to cut expenses, workers are cutting costs by reducing contributions to their retirement plans. This is a significant loss considering every dollar ***not*** added to your portfolio will miss out on matching company funds and compounding interest for years to come.

Remedy – As with mistake three, avoiding this type of risk is your best safeguard for underfunding your portfolio. Adding to your employer retirement benefit must be a priority. Revisit your retirement plan and ensure you are maximizing this benefit – often the "easiest" method of strengthening your future value of your retirement savings.

Mistake Five — "I Don't Have a Tax Strategy"

Many fail to consider the **tax impact** when withdrawing from their retirement savings. When in retirement, the objective changes **from accumulation** to **converting investments** into tax-smart income. A tax-efficient withdrawal plan can make a significant difference in how long your portfolio lasts. Retirees need to optimize taxable and tax-advantaged accounts to minimize tax-bracket impact and other income, such as Social Security.

The best way to make your retirement assets last longer is to work with your adviser on how best to take distributions from your portfolio so you are efficient with your taxes. Again, a **proactive strategy** includes working regularly with a financial expert on not only how best to invest, but also how best to protect yourself from inadvertent poor tax planning.

Remedy – Besides your health, your portfolio is your most important asset – period. Entrusting this asset to guessing, ignorance or avoidance is a strategy that will severely undermine all of your many years of hard work. Therefore, maintaining regular consultation with your financial adviser is central to actually **enjoying the retirement** you deserve.

2012 — No More *Wrong* Mistakes

We all have made mistakes. On the other hand, making mistakes you know are wrong for your future – such as the five mistakes discussed above – is a recipe for chaos in your retirement. At Banta Asset Management, we have been investing for your future for over forty years and have sailed the waves of volatile economies before. We believe finishing well means having the right **goal**, the right **resources**, the right **advice**, and the ***will*** to manage your retirement ***right***.

With continued confidence,

Banta Asset Management