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Five Common Retirement Planning Mistakes

Only 14% of American workers say they are "very confident" they will have enough money to live comfortably throughout retirement.[1] To help reduce such uncertainty from your life, consider these five common investment pitfalls – and how to avoid them.

MISTAKE #1: Waiting to Maximize Your Contributions

The sooner you start contributing the maximum amount allowed by your employer-sponsored retirement plan, the better your chances for building a significant savings cushion. By starting early, you allow more time for your contributions – and potential earnings – to compound, or build upon themselves, on a tax-deferred basis. For 2013, the maximum you can contribute to your 401(k), 403(b), or 457 plan is $17,500. If you are age 50 or older, you can sock away an additional $5,500. If you can't contribute to the max, be sure to contribute enough to take full advantage of any company match contributions.

MISTAKE #2: Ignoring Specific Financial Goals

It is difficult to create an effective investment plan without first targeting a specific dollar amount and recognizing how much time you have to pursue that goal. To enjoy the same quality of life in retirement that you have become accustomed to during your prime earning years, you may need the equivalent of up to 80% of your final working year's salary for each year of retirement.

MISTAKE #3: Fearing Stock Volatility

It is true that stock investments face a greater risk of short-term price swings than fixed-income investments. However, stocks have historically produced stronger earnings over the long term.[2] The longer your investment time horizon, it may be important to consider including stocks in your retirement plans.

MISTAKE #4: Timing the Market

Some investors try to base investment decisions on daily price swings. But unless you have a crystal ball, "timing the market" could be very risky. A better idea might be to buy and hold investments for several years.

MISTAKE #5: Failing to Diversify

Investing in just one fund or asset class could subject your investment portfolio to unnecessary risk. Spreading your money over a well-chosen mix of investments may help reduce the potential for loss during periods of market volatility. Diversification may offset losses in any one investment or asset category by taking advantage of possible gains elsewhere.[3]

Now that you are aware of these five common investment errors, consider yourself lucky: You are ready to benefit from other people's experiences – without making the same mistakes.

[1]Source: Employee Benefit Research Institute, *2012 Retirement Confidence Survey*, March 2012.
[2]Source: Standard & Poor's. Stocks are represented by total returns from Standard & Poor's Composite Index of 500 Stocks, an unmanaged index generally considered representative of the U.S. stock market. Bonds are represented by annual total returns of long-term (10+ years) Treasury Bonds. Indexes do not take into account the fees and expenses associated with investing, and individuals cannot invest in any index. Past performance is no guarantee of future results. With any investment, it is possible to lose money.
[3]Diversification does not ensure a profit or protect against a loss.

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Thinking of Tapping Into Your Retirement Account?

What to Know Before You Do

As the economy continues to stagnate, a growing number of employees are tapping into their workplace-sponsored retirement plan accounts for loans, hardship withdrawals, and distributions.

The percentage of workers who borrowed from their 401(k) plan is estimated at 21%, and the average balance due is more than $7,000.[1] While many financial experts continue to warn investors of the dangers of borrowing or taking an early distribution from their retirement accounts, it is clear that a sizeable number of plan participants have reached a financial breaking point. Half of all participants who received a hardship withdrawal said they did so to prevent eviction from their primary residence.[2]

If you are thinking about taking a loan or withdrawal from your retirement account, be sure to weigh the pros and cons. Here are some key points to note.

- **A loan can be relatively easy to obtain.** One of the biggest attractions of a loan from your employer-sponsored retirement plan is that there is no fear of being turned down for the money. As long as your plan permits loans, you can probably gain access to your money. However, the IRS limits the amount you can borrow to 50% of your account balance or $50,000, whichever is smaller. The interest rate is usually prime plus 1% or 2%, which you pay back to yourself.

- **Loans can be costly if you leave your job.** If you leave or lose your job and have a loan outstanding, you have two choices. You can pay back the balance in full (which usually must be done within 30 to 90 days) or treat the balance of the loan as a distribution and pay federal and applicable state income taxes on it. An additional 10% early withdrawal penalty could be assessed if you are under age 59 ½.

- **A hardship can be hard to obtain.** The IRS has stringent rules regarding hardship distributions. The withdrawal can only be initiated to "meet an immediate and heavy financial need." Your plan may also restrict the life events that can trigger a hardship. The IRS website contains more information on hardship distributions at *www.irs.gov/retirement.*

- **The tax bite can make non-hardship distributions costly.** Non-hardship distributions – also called "in-service withdrawals" – are subject to federal and applicable state income taxes and could include an additional 10% early withdrawal penalty if you are under age 59 ½.

[1]Source: Investment Company Institute, "401(k) Plan Asset Allocation, Account Balances and Loan Activity, 2011," December 2012.
[2]Source: AON-Hewitt, "2012 Universe Benchmarks," June 2012.

Roth contributions are not available to be withdrawn as a loan, even if your plan permits plan loans.

Have You Used Your New 401(k) Planning Tools?

You may remember that in January we introduced enhancements to your personal 401(k) website. If you haven't taken them for a test drive, log in and discover interactive features that can help you better plan for your retirement.

For example, you can look at different retirement income scenarios with calculators to adjust:

- How much you contribute
- What age you plan to retire
- Your income in retirement
- Your average rate of return

You can also make changes – to the percentage you contribute each paycheck, to investments with future contributions, or transferring a balance between funds. In addition, the site is also an immediate source for help selecting investments, your account statements and activity and fund performance.

For informational purposes only. Should not be construed as legal or investment advice, a promise of benefit or guarantee of investment performance.