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Three Retirement Planning Mistakes to Avoid

Almost one-half of all working families have no retirement savings, according to the Economic Policy Institute. And even if you've saved diligently, there are some pitfalls that can undermine even the best-laid retirement plans. The Tennessee Society of CPAs identifies three common retirement planning errors and offers advice on how to avoid them.

Mistake #1: Save Too Little Too Late

If you're running behind when it comes to savings goals, the best advice is simply to get started as soon as possible. Even if you're already in your 50s, there's still time to build up your nest egg before retirement. And if you're 50 or over you have added incentives to do so through catch-up contributions to your tax-advantaged retirement accounts. This year, you can contribute up to \$18,000 to a 401(k), 403(b) and many profit-sharing plans, plus an added \$6,000 if you're age 50 or older. With an IRA, you can contribute up to \$5,500, and another \$1,000 if you're 50 or older. For SIMPLE plans offered by some small employers, the top contribution is \$12,500, plus an extra \$3,000 for those 50 or older. Your CPA can help you create a customized plan to address your needs, so consult him or her about the best choices for your situation.

Mistake #2: Don't Revisit Your Choices

Whether you're contributing to an employer-sponsored retirement savings plan or to an individual account, you'll typically have a wide variety of investment options. Each situation is different, but as a general rule the investments you select for your overall retirement investment portfolio should reflect the number of years you have until retirement and the level of risk you're comfortable with. Keep in mind, too, that no matter what mix of investments you choose when you begin saving, it's important to revisit your choices at least once a year, or whenever there is

a significant change in market conditions or your own financial situation. Continue to review your investment choices even when you retire to ensure that your money is growing as you expected, that your annual withdrawals are still reasonable and that your funds are on track to last as long as you need them.

Mistake #3: Don't Factor in Taxes

Most people assume that their taxes will decrease when they retire, but that may not necessarily be the case. For example, many retirees take on part-time jobs. That income, combined with income from taxable investment accounts, might create a situation where your tax rate is actually the same or even higher than when you were working full-time. On another front, if your children are now grown and your mortgage is now paid off, you'll lose tax breaks and deductions you previously received. Once again, you'll have more taxable income as a result. Finally, it's difficult to predict whether tax rates will increase, decrease or remain the same over time, but there's a decent chance they may be higher when you're in retirement than they are now.

Your CPA Can Help

These are just a few of the many considerations that should be taken into account in your retirement planning. For a thorough review of retirement planning considerations and practical advice you can use, contact your local CPA.

About Money Management

Money Management is a column on personal finance that is a joint effort of the AICPA and the Tennessee Society of CPAs, as part of the profession's nationwide 360 Degrees of Financial Literacy program. Members of TSCPA are CPAs residing and practicing primarily in Tennessee in all areas of public accounting, education, government, business and industry. TSCPA offers a speakers bureau for many types of business and educational engagements. For details, visit www.tscpa.com. TSCPA is headquartered in Brentwood, Tenn.