

Seven Common Retirement Plan Mistakes

In the old days when pensions were popular, the employer assumed responsibility for the employee's retirement. More specifically, the employer was responsible for determining how much to contribute and how to invest the funds in order to provide the employee with a pre-determined monthly retirement pension. Today, however, many employees have a much different type of retirement plan – a plan where the employee assumes the responsibility to provide for their own retirement.

Two prevalent plans where the employee assumes responsibility would be the 401(k) and 403(b) plans. These plans are called defined-contribution plans, whereas the old pensions were called defined-benefit plans. Both provide a known or defined amount, but the timing is the crux. A pension will provide a certain amount in the future, at retirement. A 401(k) will provide a certain amount today, usually in the form of an employer match.

What is the employee's responsibility? The employee's responsibility is to determine how much to contribute, how to invest their retirement funds, and to perform calculations that project future retirement income. Sound complicated? For the typical employee it can be overwhelming.

The biggest mystery seems to be determining how much an employee should contribute in order to have a certain projected income at retirement. Pension plans use the services of actuaries to help with these high-powered calculations, yet an employee is expected to do this on their own. Employees typically do not go to great lengths to make these calculations. Rather, an employee is likely to contribute a small amount they deem affordable, or, they will contribute an amount sufficient to obtain the full employer match. Neither of these methods will provide the employee any assurances of a specific amount of retirement income.

What can an employee participating in a retirement plan do? First, attend regular enrollment meetings and ask questions. Rather than an enrollment meeting, consider it an education meeting. Second, avoid common mistakes made by retirement plan participants. Here are seven common mistakes and what you can do to avoid them.

1. *Not participating* – This may seem like an obvious mistake, but truthfully it's not. There are many employees who justify why they should not participate. Yes, retirement may be a long way off, but remember the saying, "A journey of a thousand miles begins with the first step." Even if your contribution seems small, just get started.
2. *Waiting to participate* – The longer an employee waits to participate, the greater future contributions must be to reach the same result at retirement. Realistically, when employees procrastinate, they seldom are able to catch-up. Start contributing as soon as possible.
3. *Failing to get the full employer matching* – If an employee does not contribute enough to get the full employer matching, they are leaving money on the table.

4. *Failing to give yourself a retirement plan raise each year* – Generally speaking, employees periodically receive raises. Let's assume you contribute 5 percent to your retirement plan, and this year you receive a 3 percent pay raise. This would be a good time to increase your retirement plan contributions by 1 percent, leaving you with 2 percent to spend. Your new retirement plan contribution would now be 6 percent. Continue this each time you receive a pay raise and you may be surprised at how fast your retirement plan can accumulate.
5. *Being too aggressive with your investment choices* – Aggressive investing tends to be volatile investing. Of course, we don't mind the upside of volatility, but we detest the downside. If the downside of investing causes you to abandon your plan, you may be investing too aggressively.
6. *Being too conservative with your investment choices* – Many employees choose ultra-conservative investments in order to minimize risk of loss. In the short-run, this may appear true. However, in the long-run, ultra-conservative investments tend to have low returns. Over a period of time, low returns begin to drag down future account values. You may consider designing a low-risk portfolio, rather than a no-risk portfolio.
7. *Failing to ask for help* – Retirement plans generally have resources, including a representative, to help you assess your risk temperament so you can choose a portfolio to weather the ups and downs. Don't be afraid to ask questions and seek help.

The key to understanding retirement investing is education. Although retirement may seem overwhelming, look for ways to learn more – articles, books, seminars, and last, but not least, your plan's regular enrollment/education meetings.

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