RETIREMENT

What Hidden Obstacles May Snag Your Retirement? 5 Key Points to Consider

To avoid getting hung up unexpectedly, plan for retirement using the "TRICK" method, which stands for taxes, risk tolerance, investment mix, costs and knowledge gaps.

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Whether your retirement is over a decade away or getting close, thorough planning is advisable because without it, you could face significant challenges that may not be top-of-mind now. And those issues down the road may affect the lifestyle you desire.

You could stumble across hidden obstacles on your way to retirement, so it's important to learn more about the potential roadblocks and take the proper steps now to reduce their impact. You could say there's a "TRICK" to it – an acronym that lays out five crucial elements to consider in your retirement plan:

'TRICK' … 'T' Is for Taxes

Most people don't take taxes in retirement into consideration as much as they should. If they have sizable amounts of money in pre-tax accounts, as many do with traditional 401(k)s or Roth 403(b)s, that money is going to be taxed when withdrawn. Required minimum distributions (RMDs) at age 72 can cause tax problems if the issue is not addressed ahead of time.

Converting some of that pre-tax money to Roth IRAs, Roth 401(k)s or Roth 403(b)s can be an effective way to reduce the tax burden in retirement. The "trick" is doing the conversion strategically over a number of years and knowing how much to convert each time. The converted amount is taxable each year, but Roth IRAs, Roth 401(k)s and Roth 403(b)s are tax-free when withdrawn starting at age 59½, although the accounts also must be held for at least five years. There is no requirement to start taking RMDs from a Roth IRA, whereas there is with a Roth 401(k) or Roth 403(b), but account holders can roll that into a Roth IRA.

Qualified Charitable Distributions (QCDs) are another way to potentially reduce the tax burden of an RMD. You can make a QCD by having your IRA custodian pay part or all of your RMD to a qualified 501(c)(3) charity. The total yearly maximum contribution for QCD is $100,000, and to make a QCD you have to be at least 70½ years of age.

'R' Is for Risk Tolerance

Ask yourself: Do you think we could go through another financial crisis like we did in 2008? A big downturn could happen at some point, and if it does, how much would you lose? More specifically, how much *could you afford to lose?* Whatever that number is, you need to be comfortable with it.

When working with a financial planner, address your risk tolerance and try to balance it between being too risky and too conservative. You most likely will want growth in your investments, but you will want to have a protective mindset for some of your assets as well.

'I' Is for Investment Mix

Investments are like different types of tools that are fit for certain types of jobs. For example: If you're cutting down a shrub, you don't use a rake. A common problem in the financial industry is you have some people who are basically trying to sell you a product, and you end up trying to rake leaves with a shovel. They're trying to sell you something, whereas an independent adviser focuses on investments that are based on your specific financial goals.

Still, different products can serve you depending on what you want. Bank-type products including savings accounts, money market accounts and certificates of deposit (CDs) won't lose money, but they're probably not going to grow very well. Another type of tool is stock market-based accounts. They can grow very well and are used for long-term growth. But they're probably not going to be safe; you can't be guaranteed you won't lose money at some point, and having success in stocks often means sticking with them over the long haul.

A third tool includes insurance-based solutions: indexed annuities or indexed life insurance. There can be reasonable growth in those vehicles and they're safe, and they are contractually guaranteed not to lose money. (Guarantees are backed by the financial strength of the issuing company. Products are not bank or FDIC insured.) But there's usually a time commitment involved.

'C' Is for Costs

Clients should have full disclosure about how their advisers' and account managers' compensation, commissions and fees work. What's in it for those people watching your money? Some of these fees are clearly displayed, like with a mutual fund account. But others are hidden or not disclosed as openly. Some financial professionals get a percentage, some work on a retainer. As the consumer, it's empowering to know how advisers and account managers are paid.

‘K’ Is for Knowledge Gaps

We live in an age when many consumers like to try to do things themselves, but financial planning isn’t like a home improvement video where you can learn how to add a room to your house for half the cost of a contractor. Your financial future and retirement planning take special care that an experienced professional can handle. Consumers are planning their retirement for the first time, but seasoned planners do it for a living and should know the hidden obstacles and how to help maneuver around them. Clients can gain greatly from the adviser’s experience.

Working on your retirement portfolio now can help you see the hidden obstacles well ahead of time. To get where you want to go, you have to know what could stop you and the right moves that will help make your retirement ride as smooth and enjoyable as possible.

NYSUT NOTE: Planning is a top priority when it comes to retirement. And the NYSUT Member Benefits Corporation-endorsed Financial Counseling Program is here to help. This program offers access to a team of Certified Financial Planners® and Registered Investment Advisors who can provide fee-based financial counseling services and advice that is customized specifically for you and your financial situation. Get more information or enroll by visiting the website.

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About The Author

Bob Horne, RICP®, Investment Adviser Representative
CEO, President, NuVenture Financial Group
Bob Horne is CEO/president of NuVenture Financial Group. A 20-year veteran of the financial services industry, including seven years as an investment adviser representative, Horne served as an assistant vice president and branch manager for HSBC Bank before focusing on retirement planning. He has passed his Series 6, 63 and 65 securities exams and carries a life, health and annuity license in Florida. Horne has also obtained the Retirement Income Certified Professional® (RICP®) certification.

Dan Dunkin contributed to this article.

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