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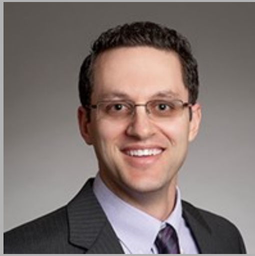
7 MUST-KNOWN FACTS ABOUT YOUR RETIREMENT ACCOUNT



In 1978, 401k plans were passed into law and have become a popular savings option for millions of Americans. Today, qualified retirement accounts take on an alphabet soup of names: IRA, 457, SEP, TSP, 403B and Keogh (just to name a few). With so many different retirement products and vehicles, it's important to learn the must-know facts regarding your retirement account:

1. The Rule of 72(t)

My kids often argue to receive their allowance early because of some seemingly desperate need, like a video game. Well, most retirees are unaware that the IRS Rule of 72(t) allows someone to withdraw money from an IRA before 59 1/2 without penalty. This rule specifically applies to those interested in accessing funds early, and may provide a way to supplement income before Social Security kicks in. You can use the money for whatever you desire, even video games.

2. Select an IRA Over Your Employer's Retirement Plan

IRAs can take many forms and offer significantly more choices than employer-based plans. IRA monies can be invested in simple savings accounts, CDs, bonds, annuities, mutual funds, stocks, and even real estate. It's most important to gain full control of your monies at retirement. Over the years, I've found very few retirees who daydream about having a lifelong financial connection to their employer. Do you really want to be calling your HR department for the next 30 years?

3. Utilize a Strategy for Social Security

Figuring out Social Security is like choosing a restaurant in the middle of Manhattan. The choices are endless and the decisions are critical. Retirees often evaluate the pros and cons of when to withdraw their Social Security based solely on the varying payouts at different ages. However, a sounds strategy should coordinate withdrawals from qualified retirement accounts and Social Security payouts.

4. No Big Purchases

Forget about buying a beach house with your retirement money to entice the grandkids to visit. It's important to recognize the impact of tax deferment. On one hand, you have avoided taxes for your entire career. On the other hand, you are indebted to the IRS for those taxes. The only way to keep the accounts "tax efficient" is to avoid large withdrawals. Instead, take a stream of income for the duration of your retirement. In other words, you'll have to encourage your children through gifting strategies instead.

5. Understand How to Benefit from an Annuity

Annuities have become very popular for baby boomers looking for income and protection in a volatile economy. Selecting an annuity can be like picking out a flat screen television at an electronics store, confusing and overwhelming. Like new technology, annuities are complicated because they come with several notable benefits. The main thing to remember is to find the best one that meets your needs.

6. Protect Against Volatility in Retirement

I came across a creative, employee-plan sponsor who introduced me to a new term called Personalized Rate of Return. I had no idea what that meant, but evidently, they counted the employees' contributions, employer match, and market return in the reported performance history. Few employees recognize these "ways" to report the ups and downs of retirement accounts because the impact of market volatility has been hidden by continually contributing to them during good and bad times. That's why the new terminology was created. During this time, market losses can be offset by contributions and employer match dollars. Beware of the opposite impact in retirement, which is withdrawing income and experiencing market loss in the same year. In 2008, the S&P 500 lost –38%. Imagine the impact of taking a withdrawal. This would create a new term: Personalized Panic Attack, or PPA.

7. Learn How to Beat Required Minimum Distributions

The IRS acts like the mob, as it relates to taxes owed on your tax-deferred accounts. You should be prepared for when you plan to get out and withdraw your money. If you wait until age 70 1/2 , they will force you to withdraw. Make sure the company that holds your IRA automatically calculates your RMDs. Some employer plans avoid this calculation in the fine print and shift the burden to investors. Having a sound RMD strategy before 70 1/2 is critical to successfully managing the tax efficiency and pass-on of retirement money.

With the help of these 7 facts, you will be able to better prepare for your sounds financial future and beyond.

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