

# Saving through Your Retirement Plan at Work? Don't Let These Five Risks Derail Your Progress

As a participant in your work-sponsored retirement savings plan, you've made a very important commitment to yourself and your family: to prepare for your future. Congratulations! Making that commitment is an important first step in your pursuit of a successful retirement. Now it's important to stay focused—and be aware of a few key risks that could derail your progress along the way.

## 1. Beginning with no end in mind

Setting out on a new journey without knowing your destination can be a welcome adventure, but when planning for retirement, it's generally best to know where you're going. According to the Employee Benefit Research Institute (EBRI), an independent research organization, workers who have calculated a savings goal tend to be more confident in their retirement prospects than those who have not. Unfortunately, EBRI also found that less than half of workers surveyed had actually crunched the numbers to determine their need (Source: 2013 Retirement Confidence Survey, March 2013).

Your savings goal will depend on a number of factors—your desired lifestyle, preretirement income, health, Social Security benefits, any traditional pension benefits you or your spouse may be entitled to, and others. By examining your personal situation both now and in the future, you can determine how much you may need to accumulate to provide the income you'll need during retirement.

Luckily, you don't have to do it alone. Your employer-sponsored plan likely offers tools to help you set a savings goal. In addition, a financial professional can help you further refine your target, breaking it down to answer the all-important question, "How much should I contribute each pay period?"

## 2. Investing too conservatively...

Another key to determining how much you may need to save on a regular basis is targeting an appropriate rate of return, or how much your contribution dollars may

earn on an ongoing basis. Afraid of losing money, some retirement investors choose only the most conservative investments, hoping to preserve their hard-earned assets. However, investing too conservatively can be risky, too. If your contribution dollars do not earn enough, you may end up with a far different retirement lifestyle than you had originally planned.

## 3. ...Or aggressively

On the other hand, retirement investors striving for the highest possible returns might select investments that are too risky for their overall situation. Although it's a generally accepted principle to invest at least some of your money in more aggressive investments to pursue your goals and help protect against inflation, the amount you invest should be based on a number of factors.

The best investments for your retirement savings mix are those that take into consideration your total savings goal, your time horizon (or how much time you have until retirement), and your ability to withstand changes in your account's value. Again, your employer's plan likely offers tools to help you choose wisely. And a financial professional can also provide an objective, third-party view.

## 4. Giving in to temptation

Many retirement savings plans permit plan participants to borrow from their own accounts. If you need a sizable amount of cash quickly, this option may sound appealing at first; after all, you're typically borrowing from yourself and paying yourself back, usually with interest. However, consider these points:

- Any dollars you borrow will no longer be working for your future
- The amount of interest you'll be required to pay yourself could potentially be less than what you might earn should you leave the money untouched

- If you leave your job for whatever reason, any unpaid balance may be treated as a taxable distribution

For these reasons, it's best to carefully consider all of your options before choosing to borrow from your retirement savings plan.

## 5. Cashing out too soon

If you leave your current job or retire, you will need to make a decision about your retirement savings plan money. You may have several options, including leaving the money where it is, rolling it over into another employer-sponsored plan or an individual retirement account, or taking a cash distribution. Although receiving a potential windfall may sound appealing, you may want to think carefully before taking the cash. In addition to the fact that your retirement money will no longer be working for you, you will have to pay taxes on any pretax contributions, vested employer contributions, and earnings on both. And if you're under age 55, you will be subject to a 10% penalty tax as well. When it's all added up, the amount left in your pocket after Uncle Sam claims his share could be a lot less than you expected.



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