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Knopinski & Fauver
Financial Advisors
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Ten Frequent Retirement Mistakes You Should Avoid

When your retirement finally arrives, you can take a deep breath and exhale. You made it! But that doesn't mean you may relax completely.

In fact, mistakes made in retirement can cause significant financial distress. Here are 10 common pitfalls to avoid:

Mistake 1. Going on a spending spree. It may be tempting to start spending freely, especially because you now have more time on your hands. But you don't want to burn through your savings in just a few years. It's still important to rely on a budget that helps you balance monthly income and expenses.

Mistake 2. Applying for Social Security right away. Most people are eligible to begin receiving Social Security benefits as early as age 62. Although that may be the best approach for some retirees, it's not recommended for everyone. You can ensure greater monthly benefits by waiting until full retirement age (FRA) to apply—age 66 for most Baby Boomers—or even longer. Starting your benefits at age 70 will give you the largest possible monthly benefit.

Mistake 3. Not taking income taxes into account. Even though you're retiring, taxes will continue to have an impact on your financial life in general and your investments in particular. You still can take advantage of investment losses to offset capital gains that otherwise would be taxed, while distributions from your employer-sponsored retirement plans and IRAs may add to your tax bill. If you have a Roth IRA, you may be able to take tax-free payouts—or pass them along to your heirs.

Mistake 4. Becoming too conservative in your investments. The traditional advice is to shift your portfolio to lower-risk investments during retirement. That makes sense as a general principle, but don't go too far. Consider your life expectancy and how long you will have to stretch the income from your savings. By avoiding investment risk you could increase another kind of risk—the risk of outliving your savings.

Mistake 5. Being handicapped by your biggest asset. It's often hard to give up the home in which you raised your children. However, at some point during retirement, it may become too expensive to live there. Even if you've paid off your mortgage, you'll still be responsible for real estate taxes, repairs, and utilities, which could add up to thousands of dollars a month. Selling the old homestead and then buying a smaller place could free up your equity while reducing your costs.

Mistake 6. Being victimized by a scam. Con artists frequently prey on the elderly, and today's schemes are increasingly sophisticated, putting almost everyone at risk. Imposters may create phony websites that mirror ones from reputable financial institutions and

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Change Is Everywhere

The recent surprise election of Donald Trump has many citizens wondering how the president-elect is going to change our country. This got me wondering how many clients have the same concerns about the new leadership at Knopinski & Fauver now that it is owned by TNL Asset Management. The short answer is very little.

As I've shared with many of the local Colorado clients in our first meeting, I spent nearly three years looking for the right practice to merge with. KFFA was chosen largely because our philosophies aligned so well. Both value close, personal relationships with the client. Both have a long-term, diversified, risk-adjusted approach to investing. Both believe that a comprehensive knowledge of the client's financial life is paramount to providing relevant financial advice—not just investment management.

Another factor that weighed heavily in my decision to buy KFFA was that both were high-functioning businesses that we could merge at a glacial pace. We are evaluating each firm's practices with the plan of sticking with the most efficient, client-friendly, and least disruptive practices. I firmly believe the financial planning capabilities of KFFA combined with the investment analysis of TNLAM will provide a better offering to our valued clients.

Thanks for sticking with us through this change. Share your thoughts with me at todd.lebor@tnlassetmgmt.com and "Please excuse our mess while we renovate."

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5 Tips To Manage Your 401(k) Wisely

Your 401(k) plan has been through a lot the past few years. Chances are, you saw the value of your plan assets plunge during the bear market, and after watching the account balance drop lower and lower, you may not even want to think about the current state of your retirement plan. But now, when times are better, is a great time to make sure you're well positioned for the future. These suggestions could help.

1. Get back in the game. Almost seven in 10 employees who responded to a recent survey by Francis Investment Counsel, a Wisconsin-based consultant to institutional retirement plans, had ended their participation in a 401(k) plan because of the recession or hadn't made any changes to their savings or investments. Turns out, this was a huge mistake. While the investment markets will continue to fluctuate, and it's important to invest in a way that fits your long-term goals and risk tolerance, choosing not to save for retirement guarantees failure. For 2017, you can contribute up to $18,000 to your account, or $24,000 if you're 50 or older.

2. Diversify, diversify, diversify. There's no guarantee that spreading your account over a variety of investments will protect you from a loss in your account, especially in a declining market. However, this fundamental investing principle is a sensible approach for reducing investment risk.

3. Review asset allocations. Literally billions of dollars flowed out of stocks into fixed-income accounts after the stock market tailspin. But 401(k)s are built for the long term, intended to fund a retirement that may be decades in the future. Over extended periods of time, stocks have historically outperformed bonds. Again, the right mix for you depends on your financial goals and your ability to tolerate investment risk. But abandoning stocks completely could be shortsighted.

4. Avoid early distributions. Withdrawing money from your account before retirement can hurt you in several ways. Distributions before age 59½ normally incur a 10% penalty, and any money you withdraw from a normal tax-deferred 401(k)—even if it qualifies as a "hardship" withdrawal and avoids the 10% charge—will be taxed as income. Worse, depleting your account before retirement robs you of the value of long-term compounding of investment earnings.

5. Don't borrow from your 401(k). For many of the same reasons, taking a loan from your 401(k) defeats its purpose—which is to help you build the largest possible retirement nest egg. Though you'll pay interest on the loan back into your account, which is favorable to racking up credit card or other high-interest debt, you'll lose time, and if you change jobs you could have to repay the loan immediately or risk having it treated as an early withdrawal.

We can help you manage 401(k) accounts proactively. If we have not spoken with you about this, please give us a call. ●

7 Late Moves To Cut Tax This Year

As the days left in the year dwindle to a precious few, there's still time to implement tax-saving strategies. Here are seven possibilities to consider:

1. Harvest capital gains or losses. If you have prior gains from securities sales, you might now sell other investments at a loss to offset those gains—and up to $3,000 of ordinary income. Or you could realize gains now to be absorbed by losses you've already taken. Profits on securities you've held at least a year that aren't offset by losses will be subject to the maximum long-term capital gain rate of 15% (20% if you're in the top tax ordinary income bracket).

2. Boost 401(k) contributions. Adding to your 401(k) plan increases your nest egg for retirement while likely reducing your current tax bill. For 2016, you can defer up to $18,000 of pre-tax salary to a 401(k) ($24,000 if you're age 50 or older). One way to find that money: Use payroll tax savings that you get when you clear the Social Security wage base of $118,500.

3. Pay next semester's tuition. Parents normally can claim one of two higher education credits or a tuition deduction for students in college. But each tax break is phased out based on your modified adjusted gross income (MAGI). If you're under the MAGI limit, consider paying the spring semester's tuition in December—because the tuition deduction is scheduled to expire after 2016.

4. Give more to charity. One fast way to reduce your taxable income at year-end is to donate money to a qualified charitable organization. I you keep the proper records, you generally can deduct the full amount of the donation on your 2016 return. This includes contributions charged to a credit card late in the year even if you don't pay off the charge until 2017.

5. Accelerate tax payments. Prepaying state and local taxes that are

What To Do About That Old 401(k) Account

If you have participated in a 401(k) plan where you work, you probably made investment choices when you signed up for the plan and you may have stuck with those investments with few modifications, watching as your account grew, with some inevitable setbacks, over the years. But now you're getting ready to leave the workforce or you're changing jobs. That raises this question: What should you do with that 401(k) at your old job?

Answer: It depends on several variables as well as your personal needs and preferences. However, depending on your circumstances, there are generally four options:

Option 1. Keep the status quo. Assuming the plan permits it (and many do), you can leave your money where it is, even if you stop working for the company. The plan administrator is legally required to observe the same requirements with regard to your account as it does for participants who are current employees. You, meanwhile, are still subject to the basic tax rules regarding distributions and penalties. For instance, you can't take penalty-free withdrawals from the plan unless you qualify under a tax law exception, such as for payouts to someone who is at least 55 years old and has "separated from service." Also, you're generally required to begin taking distributions once you reach age 70½. But if you choose this option and you haven't adjusted your investment mix in a while, you probably should review the portfolio to make sure it still meets your objectives.

Option 2. Roll over the assets into a new 401(k). If you're leaving your old job for a new one, you generally can roll over the money in your old 401(k) plan into a 401(k) or another plan provided by your new employer. It can be convenient to consolidate all of your 401(k) assets in one place, or you might prefer the investment options offered under the new plan. In any event, you won't face any income tax liability for making the transfer as long as the rollover is completed within 60 days of the job change. All of the assets you move still will be subject to the usual rules for distributions and penalties. However, if you continue working for this employer past age 70½ and you don't own 5% or more of the business, you can postpone mandatory distributions until you actually retire.

Option 3. Roll the assets into an IRA. As when you make a rollover to another employer's retirement plan, you can choose to roll over assets tax-free to a traditional IRA, even if you're retiring for good. The rollover must be completed within the 60-day deadline. To avoid having income tax withheld (which you could recoup when you file your tax return), you can arrange a trustee-to-trustee transfer so that the money never touches your hands. You might decide to roll over the assets into a Roth IRA, rather than a traditional IRA. With a Roth, you'll owe income tax on the amount you convert, but then you'll be in line for future tax-free distributions. And with a Roth IRA, you're not required to take mandatory distributions after age 70½ as you are with a traditional IRA.

Option 4. Cash in your chips. Of course, the money that has accumulated in your 401(k) all of these years is yours to keep. If you really need it now, you can simply take the money, whether you're retiring or switching to another job. But cashing in your 401(k) account when you leave your job means you'll have to pay income tax now on the amount representing pre-tax contributions and earnings. In addition, if you're under age 59½, you'll generally owe a 10% penalty tax on the taxable amount, unless a special tax law exception applies. Finally, you will lose the ability to continue to generate tax-deferred earnings within the cozy confines of a 401(k), traditional or Roth IRA, or other tax-advantaged retirement plan. And you'll have less in your nest egg when you do retire.

What's the best option? There is no definitive right or wrong answer. If you urgently need the money, you may be forced to cash in the account now. Otherwise, you may want to stick with one of the other options, or perhaps a combination of a couple of them. We would be glad to discuss the alternatives and help you formulate a plan that suits your situation. ●

due on January 1, 2017, could increase your deduction for those taxes for 2016. This is a common strategy for reducing the current year's tax bill, but you'll need to do it again in subsequent years to avoid inflating future taxes.

6. Go to the doctor or dentist. Medical and dental expenses are deductible only to the extent that they exceed 10% of your adjusted gross income (7.5% if you're age 65 or older). If you're at or near that threshold for 2016, you could schedule non-emergency visits, such as physical exams and routine dental cleanings, to take advantage of this deduction.

7. Support an elderly relative. You generally can claim a dependency exemption for an elderly relative only if you provide more than half of the person's support for the year and his or her taxable income doesn't exceed the personal exemption amount of $4,050. If it makes sense, chip in a little extra support this year to clear the half-support mark. ●

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7 Tax Baskets For Investments

At the risk of stating the obvious, it's not how much you earn from your investments that counts, it's how much you keep—and that can be eroded significantly by the "tax drag" on certain investments. That's why it makes sense to include tax-favored investments in your portfolio.

The accompanying chart shows seven different kinds of assets categorized according to the tax consequences of each one. For the most part, they're in order from the least tax-desirable assets on the left to the more favorable ones on the right.

1. Interest income: This includes interest you earn on money market funds, corporate bonds, and U.S. Treasury bonds. This income is fully taxable at ordinary income rates topping out at 39.6%.

2. Dividend income: Ordinary dividends from stocks are taxable as ordinary income. But most dividends that you get are "qualified," according to tax rules, and are taxed at preferential rates of 15% for most investors and 20% for those in the top income bracket. Meanwhile, those in the two lowest income brackets may enjoy a 0% rate on qualified dividends.

3. Capital gain income: Long-term capital gains on the sale of securities you've held for more than a year are taxed at the same preferential rates as qualified dividends, and you can reduce your tax bill further by offsetting such gains with capital losses. There's also a "step-up in basis" on inherited assets; for capital gains purposes, their tax basis is adjusted to their value at the time of the death of the person making the bequest.

4. Tax-exempt interest: This category includes income from municipal bonds and municipal bond funds. It's exempt from federal income tax (and possibly state income tax), but interest from "private activity" munis may be taxable if you have to pay the alternative minimum tax (AMT). Also, tax-exempt income may increase a retiree's tax on Social Security benefits.

5. Pension and IRA income: Income earned in employer-sponsored retirement plans—including pension, profit-sharing, and 401(k) plans—is tax-deferred until you make withdrawals during retirement, when distributions are taxed as ordinary income. The same is true for traditional IRAs. But there's no step-up in basis if these assets are passed along to heirs and required minimum distributions (RMDs) begin after age 70½.

6. Real estate: This asset deserves special recognition. Capital gain is deferred until the property is sold, and may be postponed even longer under a Section 1031 exchange. In the meantime, depreciation deductions can help shield current income from tax. Rules for long-term capital gains also apply.

7. Roth IRA and insurance: Unlike withdrawals from traditional IRAs, most distributions from Roth IRAs are completely tax-free after five years and there are no RMDs. A cash value life insurance policy can provide both tax-deferred growth and tax-free payouts to your heirs.

Don't overlook the tax ramifications of investments. Find the proper mix of asset classes for your situation. ●

Retirement Mistakes To Avoid

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pretend that the information they're seeking is crucial. Be very careful about working with anyone you don't know personally.

Mistake 7. Continuing to support your adult children. No matter how old you are, you never stop being a parent. Nevertheless, there comes a point when you must realize that you're living on a fixed income and can't support your children in the same manner as you could during your peak earning years. Worry about paying your own expenses first. Then, if there are assets left over, you can follow your parental inclinations.

Mistake 8. Underestimating health-care costs. Just because you're eligible to receive Medicare at age 65 doesn't mean all of your expenses will be paid. You'll probably need other coverage to supplement Medicare, and if you or your spouse encounter serious health issues, you could run up extremely high costs for care in a nursing home or care in your home. Long-term care insurance, when purchased early enough, can provide affordable protection. Alternatively, you might need to set aside funds to pay for potential care expenses.

Mistake 9. Leaving work too soon. Sure, some people would like to call it quits as early as possible, but it's important to be realistic. Go back to your budget and consider it in terms of how long you're likely to live. Although it may not be your first choice, the option of working for a year or two longer could help in two ways, adding to your nest egg and shortening the length of time you'll need it to fund retirement expenses. Coordinate this decision with your choices for Social Security benefits.

Mistake 10. Not seeking professional guidance. Instead of trying to do it all on your own, or relying on the advice of friends or family, sit down with your financial adviser to map out a plan. This last step may help you avoid many of the other mistakes and improve your chances of a comfortable retirement. ●

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