Ten Common Retirement Savings Mistakes Solopreneurs Make – and How to Avoid Them

Start by Mitigating the Three Key Risks Everyone Faces in Retirement

Edwin Mays, Maysgroup Advisors

If you're like my wife and I, you have enough to focus on in your consulting practice without worrying about if or when you can retire. We're always thinking about:

- Getting paid what we're worth
- Staying on top of our game as industry thought leaders and experts
- Juggling multiple clients' needs
- Bouncing between making enough money to survive and wondering what to do with our profits when things are good

IF you're in the same boat, you may be expecting your 401(k) from your first career to have your retirement covered.

To have a successful retirement you MUST mitigate these three risks:

- Market Risk
- Tax Risk
- Longevity Risk

Outlined below, I've listed ten ways your current plan may create excess risk exposure when you can least afford it-during your retirement years.

If your present setup has any of these common weak points, the solution is very simple: you'll need to revise your retirement plan. While a retirement plan that has NOT mitigated these risks is incomplete, it is fixable. (And yes, we can do that for you.)

Why Do I Have A 401(k)?

Most Americans' introduction to retirement planning has been via an employer's tax-deferred retirement plan such as a 401(k) or 403(b). They are the default retirement savings option offered by many American companies. Upon leaving a company to start our solo careers, most of us solopreneurs and independent professionals leave our 401(k) behind, assuming it will grow and be ready when we need it. Or we may even have rolled-over this 401(k) into an IRA.

Isn't the 401(k) Enough?

The 401(k) has 100% mindshare with the American workforce. Established by a change to US tax law in 1978, the 401(k) is now the most common retirement savings vehicle. However, the 401(k)'s original intent was to supplement but not replace pensions – even though pensions have become virtually extinct today. The inventor of the 401(k) says he created a 'monster.'

Was Opening a 401(k) A Mistake?

Likely the only choice when you began contributing to it at your first "grownup" job, a 401(k) seemed to offer pure upside.

You dutifully attended every company meeting with your 401(k) administrators, and you took their advice regarding allocations, contributions, etc. You listened to the investment professional who stopped in periodically to explain all this stuff. They've did their job, and so did you.

What Matters Is That You De-Risk Your 401(k) Before It's Too Late

Ten Savings Mistakes Solopreneurs Need to Avoid

1. **Thinking Your Qualified Plan Savings Are Tax-Free**
   Qualified Plans are tax-deferred ("postponed to a later date") – and with the Tax Cuts and Jobs Act (TCJA) of 2017 set to sunset in 2025 (by statute), tax rates are likely to rise. (And that's before we figure out how to pay-off our record $28 Trillion debt.) With your qualified plan, Uncle Sam is your Business partner. And, when taxes rise, your percentage share in that partnership declines!

2. **Considering Assets Are the Same As Income**
   The numbers on your qualified statement are assets that can be quickly diminished in a market crash or usurped by higher tax rates (you can't pay for dinner with a copy of your stock portfolio). Only the possession of a reliable income to SPEND allows people to enjoy this second chapter of life.

3. **Exposing Your Savings to Downside Market Risk Because You Assume The Market Only Goes Up**
   The market will not go up forever, and it could go down at the same time you need your money. Remember, if the market goes down 50%, it has to go up 100% for you to be back to square one.

4. **Focusing on Asset Accumulation Only, When Living In Retirement Requires Income**
   Retirement plans based only on growth can have many nasty surprises waiting when liquidating those assets to income.

5. **Paying High Taxes During Retirement When You're No Longer Working**
   Taxes upon withdrawals from your qualified plan are at ordinary income rates. In the future, taxes will likely be higher than they are today – and based on the nation's current debt burden, rates could be much higher.

6. **Assuming your Financial Advisor Has Addressed Tax Risk Retirement**
   Has your financial advisor explained how your current plan neutralizes tax risk? Have you asked?

7. **Using your Qualified Plan fund Prior to age 59 ½**
   Early withdrawals are subject to a 10% penalty. Plus, you must pay tax on the amount at ordinary income rates. Unfortunately, if you have an unforeseen expense qualified funds are a costly option.

Thanks to the TCJA Tax Rates Are Going Up

"A notable feature of the individual tax and the estate tax provisions is that all of them expire after 2025."
Taxpolicycenter.org

Are you really benefiting from your focus on growth? 80% of fund managers don't even beat the S&P 500®.
S&P SPIVA® Study

Ten Savings Mistakes Solopreneurs Need to Avoid (cont'd)

8. Paying Higher Tax Rates on Future Required Withdrawals Instead of Today's Low Rates

At age 72 you'll have forced withdrawals through Required Minimum Distributions ("RMDs"). You're required to take out a certain amount of your qualified savings each year and pay taxes on that distribution. But here's the deal-This tax rate is currently UNKNOWN. Most of us haven't considered that these required withdrawals are more like built in tax revenue for the US Treasury.

9. Living Longer Than Your Savings Can Support

Qualified Plans have no protection against any of the three primary risks —ALL of which increases in severity as you grow older. Obviously, you want to live as long as possible, so make sure your plan doesn't quit before you do.

10. Potentially Altering Your Beneficiary's Tax Situation

Upon your death any non-spousal beneficiaries must withdraw 100% of funds within 10 years and pay taxes on it at ordinary income rates. Beneficiaries can be moved into a higher tax bracket and impact the amount of tax applied to their Social Security benefits.

How to Fix Your 401(k) and De-Risk Your Financial Future

The bottom line is, as Solopreneurs and independent professionals, we cannot take on unnecessary risk, but **our current saving plans are probably doing just that**. Qualified Plans' popularity has allowed most Americans to assume that their retirement savings plan is on track, only to learn the realities later when they retire and begin to understand the negative impact of tax-deferred saving.

Tax-deferred IS NOT tax-free.

At the MaysGroup, we're in the same boat as you, retirement-wise. Except the work I do as a fellow Solopreneur is helping you take care of your financial future so you can focus on your present.

Our strategies are proven and based on the math and science of economics, not the opinions of "gurus" or pundits' market predictions. Instead, our plans mitigate the damage that taxes will have on your retirement savings, while neutralizing market risk, and providing guaranteed lifetime income.

To avoid these risks, we'll re-design your retirement savings strategy to one that addresses Market Risk, Tax Risk and Longevity Risk.

If you are concerned about these risks and how they will affect your current retirement savings plan, then our approach might be a good fit for you. Start by contacting us directly for an honest discussion of where your current plan is risky, and how you can benefit from our strategies.

Call us: 609-512-1655

Email us: info@maysgroupadvisors.com

Edwin Mays, Founder, Maysgroup Advisors

Edwin Mays has been in the financial services industry for 30 years, working for Thomson Financial, Merrill Lynch, Citigroup/Smith Barney and Transamerica before forming MaysGroup Advisors. His focus is helping clients future-proof their retirement income by immunizing them from the risks of market volatility, taxes and health emergencies.

Whether its stock market history, fiscal and monetary policy, tax expectations, actuarial realities – all MaysGroup strategies are data driven to help clients minimize the various risks that are multiplied during retirement.

Ultimately, Edwin's job is to help you gain control of and protection of your financial future with time-tested strategies.

Life, Accident, Long Term Care, Disability and Health Insurance licensed in CA, CT, DE, GA, IL, MD, MI, NJ, NY, PA, TX.

Ready to Future Proof Your Retirement?

Contact us to discuss a 100% customized plan for you

Call us at directly at 609-512-1655 or

email us directly at info@maysgroupadvisors.com