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TAX & FINANCIAL

# The Hidden Power of Pre-Retirement Planning

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***Let your  
future dreams  
take priority  
over current  
spending habits.***

## **Most people will spend more time in pre-retirement – planning ahead for their future retirement – than in retirement.**

That's why resourceful baby boomers are turning to research and financial coaches for the information they need to review their portfolios and address the question: "What kind of pre-retirement planning do I require for a successful transition to life after work?"

More than about tangible strategies and solutions, a successful pre-retiree must think through one's investment attitudes and behaviors to unlock the hidden power that lies in careful preparation in the pre-retirement planning stage of life.

### **Raising pre-retirement consciousness**

Pre-retirement awareness starts with the knowledge that you may be only 10 to 15 years away from retirement – and must take three critical steps now:

1. Visualize what you are retiring "to" (as opposed to what you are retiring "from")
2. Limited investment choices? Try this antidote: In-Service Non-Hardship Withdrawals
3. Look closely and know what plan fees you are paying in your retirement plan
4. Decide if you need help

### **1. Visualize what you are retiring "to" (as opposed to what you are retiring "from")**

Why retire from something when you can retire to something? Have you given yourself time to think about your future? Can you imagine life after work? Many people can't and it's understandable. Day to day, we are consumed by the demands of family, friends and career. For many, when retirement comes, it can become a source of stress wholly unrelated to the availability of money and resources.

Relax and visualize your future. Maybe you'd like to scale back the hours you put in over the next few years. If you're not clear on what you're spending your money on at home, set up a system to track your expenses one weekend.

## 2. Limited investment choices? Try this antidote: In-Service Non-Hardship Withdrawals

The best candidates for this step are plan participants who think they will not reach their retirement goals based on an employer's short-list of investment choices. To be eligible, participants often must meet certain requirements. Plan guidelines may include a minimum age restriction (usually age 59½), a length-of-service requirement (often two or five years) or both. Employer plans often limit these withdrawals to vested employer matching contributions, plus earnings, as well as rollovers and earnings from previous employer plans. Some plans allow employees age 59½ and older to withdraw their entire balance without any further restrictions.

Which plans permit these withdrawals?

- Profit-sharing, 401(k), stock bonus and employee stock ownership plans usually allow them.
- Cash balance, target benefit and money purchase plans may permit them for employees who have reached the plan's normal retirement age.

On the other hand, defined benefit plans usually do not allow them.

## 3. Know what plan fees you are paying for your retirement

Twenty years ago, the cost of administering a 401(k) plan was primarily the responsibility of the employer. Today most of that burden has shifted to you, the pre-retiree. According to a recent article in AARP, "Although workers have not been receiving itemized bills for fees they pay in their 401(k) retirement plans, those hidden costs may be chipping away at the growth of their nest eggs."



***AARP estimates that hidden fees of 1% can reduce a worker's retirement returns by about 15% over 30 years. For an account of \$1 million, that comes to \$150,000.\****

Administration fees in 401(k)s are easy to overlook. Examine the transaction history. Any removal of partial shares may be a sign that your shares are being sold to pay fees – which could be a drag on long-term total return

## 4. Decide if you need help

All investment strategies have the potential for profit or loss. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment or strategy will either be suitable or profitable for a client's portfolio. If you still feel uncomfortable making major investment decisions on your own, you can and should talk to a professional tax preparer or financial advisor. These professionals can also make sure that your pre-retirement strategy is integrated with your other financial matters such as legacy planning and investment planning.

\*Source: <http://www.cnn.com/2012/06/27/opinion/hiltonsmith-retirement-savings>



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