Five Big Savings Mistakes to Avoid

Wes Moss Money Matters; Staff

I recently took this question from a listener to "Money Matters," my Sunday morning radio show:

"Wes, this is Betty. I'm 54 and thinking about retirement in the next five to seven years. But in helping my daughter get through college, I now have $125,000 in Parent Plus loans I have to pay off. Should I pull money out of my 401(k) to pay down some of the debt?"

I love doing the radio program. It allows me to answer individual questions and share larger lessons that arise from those calls. Betty's quandary got me thinking about some of the biggest and most common financial mistakes we make -- and how to avoid them.

Let's get back to Betty...

1. **Using 401(k)/IRA Money to pay off a student loan --** This is almost never a good idea, even if you are 59 1/2 or older when there is no longer a penalty to use retirement funds. Betty is 54, so dipping into her 401(k) would require either taking a loan against her account or making on outright withdrawal. Paying back a loan to get her 401(k) back to even would seriously reduce what she ends up saving for her retirement and/or delay the time when she can stop working.

If Betty opts to simply withdraw the money, she faces the same savings deficit plus a higher tax rate for this year, as the disbursed funds would add to her overall income. Oh, and she'll also pay a 10 percent withdrawal penalty on top of those taxes.

Remember: There are plenty of lenders who will finance college costs, but none that will lend you money to retire.

Betty should insist her daughter contribute to repaying these loans. A student loan finance company such as SoFi (www.sofi.com) can potentially offer a significantly lower interest rate on that debt.

2. **Delaying your savings start date** -- If you ask 100 millionaires how they "got rich," the most common answer will be "start saving early." The power of compound earnings is the eighth wonder of the world. Ideally, we should start saving for retirement from Day One of our working career. As a recent study by JPM Asset Management demonstrated, waiting even a few years to start saving can dramatically reduce the final size of your retirement nest egg. If you haven't started saving for retirement, start today. A Chinese proverb says it all: "The best time to plant a tree is 20 years ago. The second best time is today."

3. **Buying too much house** -- Americans are too often pennywise and pound foolish in our financial strategies. We rightly avoid small indulgences such as too many Starbucks drinks, fancy dinners and impulse clothing purchases. But then we buy too much house at $150,000 over our initial budget. Which behavior do you think will have the most impact on our retirement strategy? The mortgage industry routinely encourages borrowing above 30 percent of your AGI (adjusted gross income). Don't do it. Stick with less than 20 percent.

4. **Taking Social Security at the wrong time** -- There is no perfect answer to when to start taking your Social Security retirement benefits, but you should think it through. You can begin receiving payments at 62, but your monthly benefit will increase every year that you wait up to age 70. So, should you wait? Not necessarily. You

may have financial needs or health considerations that support an early start. Conversely, if you are happy with your other sources of retirement income, including, perhaps, a few years of working part time at the golf course, it might make sense to wait. Do your research on this one. There are several SS calculators on the Web. An online tool that my team has developed will show you the numbers and actions to get the most out of Social Security. www.yourwealth.com/resources/social-security- optimizer

5**. Spending too much on your kids** -- This one brings us back to Betty. Don't let your well-intentioned desire to help your children sabotage both your finances and the kids' ability to stand on their own two feet. As a father of four, I want the very best for my kids. But part of that "best" is teaching them the value of money and the importance of self-sufficiency. I want my children to be bought-in on their education and will require them to make some contribution.

As for supporting adult offspring, remember this: The best gift you can give your kids is to be financially secure in your post-career life, so they don't end up supporting you. Prioritize that over paying the rent or cellphone bill for your smart, healthy, college-educated twentysomething.

Wes Moss has been the host of "Money Matters"on News 95.5 and AM 750 WSB in Atlanta for more than seven years now, and he does a live show 9-11 a.m.Sundays. He is the chief investment strategist for Atlanta-based Capital Investment Advisors. For more information, go to wesmoss.com.

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