

Four Mistakes Hurting Your Retirement Planning

By Reed Tinsley, CPA

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Don't Hurt Your Retirement

Saving for retirement was never on my radar as a 20-something. I was young, short on cash, and not thinking about the future. But when I hit 30, things changed. I started making my retirement savings strategy a priority, from automating monthly contributions to maxing out various savings vehicles, from 401(k) plans to SEP IRAs. But when it comes to retirement, it's not just what you're doing that matters. It's the things you *aren't* doing that can impact your savings.

1. Not starting early

The biggest mistake that people make is thinking that they can always start tomorrow. In your 20s and 30s and even our 40s, there's always a feeling that we have plenty of time to start saving for retirement. The truth is that time is our greatest ally in achieving financial success. The sooner we start, the more time we have for our money to grow and compound. And not starting because you feel like you're already behind isn't helping, either. When people find themselves behind in their 40s and 50s, it often feels overwhelming to think about playing catch-up for retirement. When we feel that retirement is an unachievable goal, we either tend to avoid the topic and continue our path of not saving, or we look for ways to make up ground with overly aggressive investments. In either case, this can lead to financial decisions that put retirement at greater risk.

2. Not adjusting your retirement savings with your lifestyle

Another retirement mistake? Not increasing your retirement contributions as your earnings increase. Understand and be aware of where you are saving and spending money. As people start to make over \$150,000, they start to get lazy with watching what they spend and tend to overspend on areas without even realizing it. Things like shopping, going out to eat, and travel tend to go on the credit card and they

are still able to find a way to 'figure it out.' But automatically increasing your retirement contributions in tandem with your earnings is one way to ensure your retirement stays on track.

3. Ignoring tax implications

When saving for retirement, we often hear terms like pre-tax dollars, post-tax dollars, and tax-advantaged savings accounts. But do we know the financial implications these differing tax rules have on our retirement? If you] have some of your investments in pre-tax buckets, some in Roth buckets, and some in brokerage account and cash buckets, you will be able to really maximize the after-tax value of your cash flow by working within the tax code and making the most of [your] annual distribution. Most people just think about how to reduce their taxes this year, but they should be thinking about how they are going to reduce the lifetime value of the money they pay in taxes.

4. Cashing out

It can be tempting to cash out your retirement to pay for a big purchase or keep you afloat in times of financial stress — but it's a big mistake. If possible, leave the money in your retirement account until you can take it out penalty-free. It can feel tempting to cash out when we change companies or in a pinch but after taxes and penalties, you'll be left with close to half of what was in your account. Blah. Plus, those funds will no longer be helping you get closer to your retirement goals. And those penalties can be hefty — 10%, plus any income taxes you might owe on the money.

Mind over money

At the end of the day, it's your mindset when it comes to money that truly matters. I have learned that financial success isn't just about the mechanics or math of money, it's about cultivating the mindset necessary to achieve it. Awareness of [the] mindset and the beliefs, values, attitudes, and potentially limiting beliefs that are holding us back is a critical step in letting go of what might be holding us back from stepping into our next chapter of life, the people we want to become, and creating the lives we truly want to live.

Takeaways

- The sooner you start planning for retirement, the easier it will be — playing catch-up later on is hard.
- Many people fail to adjust their retirement savings when their income grows.
- It's tempting to pull money out of retirement early for big expenses, but it's not worth the penalties.