SOLID ROCK WEALTH MANAGEMENT
WealthGuide

77 Common Financial Mistakes and How to Avoid Them

An Educational Resource From Solid Rock Wealth Management

By Christopher Nolt

I'm passionate about helping people make smart decisions with their money. In my 25 years as a financial advisor, I've always been amazed at how people will work so hard to make money but will spend so little time learning how to manage it wisely. Many people spend more time planning a two-week vacation than they do a 30-year retirement.

A little education can go a long way in helping you become a better money manager, which will lead to a more financially productive life. In this Wealth Guide, I have listed 77 common financial mistakes and how to avoid them. These mistakes range from simple to complex and are in no particular order.

1. No plan. You may have heard the saying; people don't plan to fail, they fail to plan. If you have written goals and a written plan for achieving them, you will accomplish more.

Solution: Don't just wing it. Take time to educate yourself about money. Write out your goals and construct a plan for achieving them.

2. Using the wrong financial advisor. Unfortunately, many financial advisors are looking out for their own interests more than their clients. Even ethical advisors can be misguided on the best financial strategies to use. The companies they work with often have an agenda, which is to push the products that will make them the most money. Make sure you know what services you are paying for and how your advisor is compensated. If an advisor is paid on commission, that means he or she has an incentive to sell you one product over another, regardless of whether it's in your best interest.

Solution: Work with an independent, fee-only registered investment advisor, or a fee-only financial planner. Registered investment advisors are held to a "fiduciary standard". As a fiduciary, they are legally required to put your interests before their own. This is different from many financial advisors who are guided by a lesser standard of care called the "suitability standard."

3. No budget/over spending/overuse of debt. I grouped these three mistakes together because they tend to go hand in hand. Without a budget, it's easy to overspend. Over-spending often leads to debt, and debt often becomes a never-ending cycle, costing people a fortune.

Your goal should be to earn interest not to pay it. While some debt/leverage can be beneficial with investing, debt poses one of the greatest risks to your financial future.

People often claim they can't save money, but they fail to consider how little things add up. For example, if you were to invest $4 each day at 10 percent interest, you would accumulate $710,803.64 over 40 years. Remember this the next time you order that latte.

Solution: Develop a budget and the habit of saving money. Set up automatic withdrawals from your checking account into saving and investment accounts. Treat your saving and investing like it's a bill and commit to paying yourself first.

4. Making the minimum monthly payment on credit cards. Not paying off credit cards in full each month is a very common and costly mistake. Paying interest as a result of not paying off credit card balances each month makes the price of the charged items more expensive. Consider this: If you carry a credit card balance of $10,000 with an annual percentage rate (APR) of 15 percent, and you are only making the minimum monthly required payments, the amount of interest you will owe over the life of the loan is $11,772. It will take you 27 years and 8 months to pay off your $10,000! And, unlike mortgage interest, credit card debt is not tax-deductible.

Solution: If you can't pay off your credit cards in full each month, tear up your card(s) and stop using them. If you want a card for convenience sake, use a debit card.

5. Car purchases. Many people purchase new cars they can't afford and they trade them in too often. Few car buyers can afford to pay cash for their vehicle. Instead, people purchase cars based on the monthly payment they feel they can afford. The ability to afford the monthly payment is not the same as being able to afford the car. By financing a car, you're paying interest on a depreciating asset. Worse yet, many people lease or trade in their cars every two or three years.

Cars depreciate significantly as soon as you drive them off the lot. Consumer Reports notes that over the first five years of ownership, the median car costs more than $9,100 a year to own. However, if you keep the vehicle for eight years, this cost can be lowered to an average of $7,800 per year. Keep your vehicle as long as you can — until the repair bills outweigh the cost of a new car [(1)].

Solution: If you can't afford to purchase a vehicle with cash, don't purchase it. Set up a savings account specifically for major purchases such as a new (or used) car and make deposits into that account each month. If you can purchase a car with zero percent financing, it may be worth doing so. Just be sure you can afford the vehicle, and you are investing what you should be for retirement. If you pay cash, however, you will likely be able to negotiate a better purchase price.

6. Failure to start saving early/delaying to save. There are major benefits in starting to save for retirement early. Consider the story of John and Bob. Both save $2,000 per year and earn 12 percent.. John starts at age 19 and stops at age 26, while Bob starts at age 27 and stops at age 65.

Question: Who will have more money at age 65?
Answer: John will. Although he only invested $16,000 over seven years, by age 65 he had accumulated $2,288,996. Bob invested $78,000 over 38 years but only accumulated $1,532,166 by age 65.

Since everyone has various things they'd like to buy when they're younger, it's easy to put off investing for a few years. However, you may be surprised at how much even a short delay can cost you.

Consider another example. If you are age 30 and invest $5,000 per year at 10 percent interest, you will have $1,355,122 at age 65 if you begin investing now. But if you delay investing for one year, you will only accumulate $1,227,283, which means that your one-year delay cost you $127,739. Wait two years and it will cost you $243,684. Wait three years and it will cost you $349,433.

Solution: Pay yourself first. Set up an automatic monthly deposit into an IRA account and discipline yourself to start saving for retirement as soon as you start earning income.

7. Not taking advantage of tax deductions. The IRS has established deductions you can take to reduce your taxable income. Failing to learn about and claim the deductions available to you can cost you thousands of dollars each year.

Solution: If you prepare your own tax return, take time to research what expenses you can legally deduct. There are many programs such as Turbo Tax that help you identify tax deductions and show you the impact they will have. If you own a business or have a high income, it's probably best to hire an accountant.

8. Using the wrong accountant. Just as there are good and bad financial advisors, there are good and bad accountants. I've seen accountants give some pretty lousy advice over the years that have cost people thousands of dollars. I'll never forget meeting with a client of mine in his CPA's office to discuss tax saving strategies on the sale of their ranch. I had shown my client how he could save close to $1 million in taxes, but because his CPA was not experienced with the planning tool we were discussing, he shot down the idea. Because my client had a long-standing relationship with his CPA, he didn't employ the strategy.

Solution: If you hire an accountant, make sure they are more than just a tax-preparer. You want to work with a Certified Public Accountant (CPA) who is very knowledgeable and proactive in helping you make smart financial decisions. You also want someone who is humble enough to seek out advice on topics he or she is not familiar with, and is willing to collaborate with other professional advisors.

9. Being overly concerned about taxes. Just as not taking advantage of tax deductions is a mistake, so is being overly concerned about them. Sometimes people put saving taxes ahead of making smart financial decisions. Don't step over a dollar to save a dime, and don't let the tax tail waive the investment dog.

Solution: Make sure your financial decisions make sense long-term rather than providing only short-term tax savings.

10. Not taking annual Required Minimum Distributions (RMD) from a Traditional IRA. If you are over the age of 70 and a half, the IRS requires you to take a Required Minimum Distribution from your account each year. This amount is based upon your age and the account value of your IRA on December 31 of the preceding year. Failure to take your RMD in any given year can result in a 50 percent penalty of the RMD amount.

Solution: Make sure your financial advisor or investment custodian is set up to automatically send you your RMD each year.

11. Investing too conservatively. Many people make the mistake of playing it too safe when investing for retirement. If you have a lot of money, you may be able to invest very conservatively. But if you're like most people, you need to earn a decent rate of return to keep up with inflation and achieve your goals.

Some investors, particularly older ones, are uncomfortable with market volatility. As a result, they only invest in Treasury bills, Money Market accounts, fixed-rate CDs, and savings accounts. While this money is safe from market risk, it's not safe from inflation risk. Without equities in your portfolio, you will likely not keep pace with inflation. If you don't keep pace with inflation, your purchasing power will decrease over time. As a result, you will either have to continually reduce your living expenses, or risk running out of money before you die.

Solution: Have some money in growth investments such as stock mutual funds at all ages.

12. Relying solely on Social Security for retirement. If you rely solely on Social Security benefits for your retirement, you will likely have to become a very good penny pincher. Social Security typically only represents a fraction of one's retirement income.

Solution: Get a projected benefit summary from www.socialsecurity.gov to learn what your benefits will be, and invest in retirement accounts to supplement your Social Security payments.

13. Not maximizing Social Security benefits. One of the biggest mistakes retirees make is incorrectly taking Social Security benefits. For many, the lifetime inflation adjusted income promised by Social Security is their most significant asset. If you were to calculate the present value of your Social Security income stream, it could be more than you have in your 401(k) or IRA.

How and when you file for Social Security benefits can dramatically affect the benefit payment you will receive in retirement. Some ways you may be decreasing your retirement payout are by failing to maximize your earnings, signing up too soon, not using a file and suspend strategy, and failing to coordinate benefits with your spouse.

Solution: Make sure to work with a financial advisor who is knowledgeable on Social Security and who can analyze your personal situation to determine how to maximize your lifetime benefits. At Solid Rock Wealth Management, we have a program that calculates the age and filing strategy, which produces the highest lifetime benefits.

14. Purchasing life insurance as an investment. Insurance companies and their agents would like you to believe that purchasing life insurance is a good investment. While life insurance is a valuable financial tool and essential protection for many, it is a lousy investment for retirement.

Life insurance policies that include an investment component "cash-value" come in many different policy types, such as universal life, whole life, and variable life. The cost of these policies can be up to ten times higher than the cost of a standard term-life insurance policy. That's why insurance agents love to sell them. In the first year of your policy, the agent's commission can be as much as 90 percent of your premium.

Cash value life insurance can serve a purpose, especially for estate planning. But if your need is simply for debt reduction, family income, and other basic life insurance needs, stick with term-life insurance. Invest the money you save in premiums versus buying cash-value insurance in low cost mutual funds, preferably inside a tax-favored retirement account.

Solution: Work with a fee-only financial planner to determine how much life insurance you need, what type of policy to buy, and how to own the policy.

15. Wrong life insurance ownership selection. Owning your life insurance personally could cost your heirs tens of thousands of dollars in estate taxes.

There are ownership issues associated with life insurance that impact whether the proceeds are included in an estate. The IRS states if there are "incidents of ownership" in a policy, it will be included in a person's estate. Incidents of ownership can include the right to borrow on a policy's cash value, to change the policy's beneficiary, to change a settlement option, and the right to change the dividend selection. If the insured person(s) were to retain outright ownership or merely incidents of ownership in the policy, the proceeds of the policy would be brought into the estate for estate tax purposes.

Life insurance is commonly used to provide cash to pay estate taxes and other costs. However, if the insured person has any incidents of ownership in the policy, the proceeds will be included in his or her estate. The result is a large portion of the life insurance proceeds could end up going to the IRS instead of your intended beneficiaries.

Solution: There are two ways to avoid life insurance proceeds from being included in your estate for estate tax purposes. One is to have your children own the policy. The second (and preferred) way is to have an Irrevocable Life Insurance Trust (ILIT) own the policy. If a life insurance policy and its payments are structured properly with your children or through an ILIT, the death proceeds will not be included in your estate.

16. Purchasing insurance with low deductibles.
Many people opt to purchase low deductibles on their car, home, and other types of insurance. The odds you'll need to make a claim in any given year are relatively low, so it often makes more sense to reduce your premium and not your deductible. By increasing your deductible to $1,000 or more, you will significantly reduce your premium. It may also make sense to use the premium savings you receive from lower deductibles to increase your policy limits.

Having to spend an extra $500 on a claim won't break you. What could break you financially is having inadequate coverage in the event of a serious claim. A higher deductible will also prevent you from making small claims, which can increase your future premium rates. If you make a lot of claims, you're bound to see your premium rise, or even be turned down when it is time to renew your coverage.

Solution: While focusing on obtaining the amount of coverage you need, purchase insurance with higher deductibles, and deposit the money you save in premiums into your emergency fund.

17. Not purchasing an umbrella insurance policy.
Claims arising from lawsuits that go beyond the limits of your personal auto, home, or boat insurance could be devastating to your finances. Purchasing an umbrella insurance policy is an inexpensive way to protect you from these claims. An umbrella insurance policy is extra liability insurance coverage that goes beyond the limits of your home, auto, or boat insurance. It provides an additional layer of security from lawsuits arising from damages to other people's property or injuries caused to others in an accident. It also protects against libel, vandalism, slander, and invasion of privacy.

Solution: If you have less than $1 million in assets, purchase an umbrella policy with at least a $1 million of liability coverage. Even if you get sued and win your case, you could be forced to pay a legal judgment from your current assets and future earnings. If your net worth is more than $1 million, or if you have a large income, purchase higher amounts of umbrella coverage. Make sure to get a quote from the company that insures your home and car, as it may offer a multiple policy discount.

18. Not having an emergency fund. An emergency fund is a liquid, low-risk savings account you can use in the event of emergencies. If an unexpected event happens, like needing to replace an appliance when you don't have the cash to pay for it, you may be forced to put that expense on a credit card, which could start a never ending cycle of debt.

Solution: Establish an emergency fund equivalent to three to six months of your monthly living expenses. A money market account will often pay higher interest than a bank savings account. Having your emergency fund separate from your bank may also reduce the temptation to spend that money on non-emergencies.

19. Not considering tax-saving strategies when selling highly appreciated property. There are strategies you can use to defer or avoid capital gain taxes on the sale of appreciated property. Failing to use these tools may cause you to pay unnecessary taxes. Two primary financial tools one can use to save taxes are the IRC Section 1031 Exchange and the IRC Section 664 Charitable Remainder Trust.

Consider this example; if you purchased real estate for $100,000 and you sell it for $1 million, you have a capital gain of $900,000. Depending on the state you live in and how the property is owned, capital gain taxes on the sale of that property could range from 20 percent to over 50 percent. In addition to federal and state income taxes, there is a new 3.8 percent Medicare (Obamacare) tax you may also be required to pay on net investment income. Assuming a tax of 25 percent, you would pay taxes of $225,000 ($900,000 x 0.25). If you used a 1031 Exchange or Charitable Remainder Trust, this $225,000 tax cost could be invested to generate retirement income.

Additionally, if you plan to leave money to a charity when you die and you have highly appreciated stock or real estate, you may be better off using planned giving instruments such as a Charitable Remainder Trust, because you can realize income tax benefits from your giving while you are alive. Some states also offer income tax credits for planned giving.

Solution: Work with a financial advisor who is knowledgeable and experienced with using the 1031 exchange and Charitable Remainder Trust. They can determine if these financial tools make sense for you. Be careful if you talk to a real estate agent. They will likely not bring up the Charitable Remainder Trust because they may not profit from it. If you talk to a financial advisor who doesn't have a real estate license, they also may not bring up the 1031 exchange because they can't sell you real estate. And, if a financial advisor tries to get you to purchase securitized real estate for a 1031 exchange, understand there are more risks and higher fees with securitized real estate investments that are eligible for a 1031 exchange.

20. Bad gifting strategies. The choice of how you give and what assets you give are very important decisions. For example, if you would like to leave assets to your church upon your death, and you have a choice of leaving a $100,000 certificate of deposit owned personally or a Traditional IRA account valued at $100,000, which would be the better asset to give? The answer is your IRA, because you've already paid tax on the money in the CD but not on the IRA. While your heirs would have to pay tax on money distributed from your IRA, your church would not because it is a tax-exempt entity.

Solution: Work with a good CPA and financial advisor who can consult with you on prudent gifting strategies. A smart gifting strategy is to leverage your annual gifts into larger sums. That way you can potentially increase the amount of your gift and further reduce future estate tax by getting the asset with high appreciation potential out of your estate. Be careful about making a gift of stock or real estate that is already highly appreciated, because if you gift an asset, the recipient also receives your cost basis in the asset.

21. Not planning for health care costs. People under estimate how much health care will cost them during their retirement years. According to the Employee Benefit Research Institute (EBRI), Medicare only covered 62 percent of the cost of health care services in 2011 for Medicare beneficiaries ages 65 and older. Out-of-pocket spending accounted for 13 percent, and private insurance covered 15 percent [(2)].

In 2014, a couple would need $247,000 in savings to cover health care expenses in retirement if they wanted a 90 percent chance of having enough savings in retirement to cover their lifetime health care expenses (not including long-term care). If you are age 65 or older, do you have $247,000 ear-tagged specifically for health care expenses [(3)]?

Solution: Work with a financial advisor who, with these estimated healthcare expenses in mind, will help you estimate how much money you need to have in retirement savings and how much money you can withdraw from your portfolio each year.

22. Not planning for long-term care costs. Neglecting to factor the cost of long-term care in your retirement planning could prove to be very harmful to your future lifestyle. According to a recent study, at least 70 percent of people over age 65 will need long-term care services at some point in their lifetime [(4)].

In 2014, the median annual cost of home health care in the U.S. was $43,472. The median annual cost of a single occupancy bedroom in an assisted living facility was $42,000. The median annual cost of a semi-private room in a nursing home care facility was $77,380. The the median annual cost of a private room in a nursing home care facility was $87,600 [(5)].

Solution: You can self-insure if you have sufficient resources. If you have a significant amount of assets but are unable to self-insure, it is best to transfer this risk to an insurance company by purchasing long-term care insurance.

23. Failure to diversify. Having all your money in one place is a near-certain way to get into major financial trouble. Harry Markowitz, the Nobel Prize-winning economist has been quoted saying, "Diversification is your only free lunch so get as much as you can."

Investing in individual securities carries a significant amount of risk. The chance of earning a greater return over time with individual securities versus a low-cost diversified mutual fund is very low.

Solution: Diversify your investments. When investing in the stock market, invest in mutual funds versus individual securities.

24. Failure to diversify effectively. You can be ineffectively diversified. If you own multiple stocks or mutual funds, but they are all in the same asset class and move in the same direction at the same time, you are not realizing the benefits of "effective diversification."

Diversification is much more than the idea of not putting all your eggs in one basket. Stocks that share similar risk factors tend to move together. Combining stocks in a portfolio that move in tandem is "ineffective diversification," because risk is not reduced. "Effective diversification" helps reduce risk.

An effectively diversified portfolio is constructed of securities, or preferably entire asset classes, that do not share common risk factors, and therefore tend not to move in tandem with each other. These portfolios have components that "zig" while others "zag," creating more consistent, less volatile returns. Effective diversification should not only provide peace of mind, but might also help your money compound at a greater rate compared to a more volatile portfolio with the same average return.

Solution: Create a portfolio using low cost index mutual funds or exchange-traded funds, and combine multiple asset classes that do not have high degrees of correlation.

25. Diversifying through multiple investment advisors. Some people diversify their investments among multiple investment advisors. There are several reasons why this most often does not make sense. First, it is difficult to maintain a cohesive asset allocation strategy with all your money when your money is scattered among different advisors. Since asset allocation accounts for over 90 percent of investment performance [(6)], your overall investment performance may suffer. Second, having multiple advisors makes it more difficult for each advisor to implement and maintain an effective retirement income distribution strategy. This may result in paying more taxes than necessary and having portfolios that are not rebalanced to their target allocations. Thirdly, most investment advisors offer fee breaks based on the amount of money you invest with them. If you have multiple advisors, you may be paying higher advisory fees with each advisor than you would if you had all your money with one. Lastly, each investment custodian charges account fees. Having multiple advisors will likely result in you paying higher custodial fees than necessary.

Solution: Consolidate your money with the right advisor.

26. Chasing past performance. Selecting investments based on recent performance often leads to inferior returns. More often than not, top performing funds cool off and underperform in the future. The reason is simple: The market forces that led to the relatively brief period of high performance inevitably change. All asset classes move up and down randomly over time.

Solution: Don't purchase your investments by looking at recent performance figures alone. Instead, develop an effective asset allocation strategy, and buy and hold a portfolio of low-cost index mutual funds or exchange traded funds.

27. Investing money based on "hot-tips" or advice from friends, family, and co-workers. People invest thousands of dollars based upon tips from a friend or co-worker without doing any research of their own.

Solution: Whether a tip comes from a friend, family member, or even your broker, do your own research before investing.

28. Allowing emotions to dictate your investment decisions. Emotions and investing don't mix well. Benjamin Graham, often referred to as "the father of investing," said it best; "the investor's chief problem – even his worst enemy – is likely to be himself."

People commonly make investment decisions based on their emotions, which typically ends up costing them greatly. Jason Zweig, a columnist for The Wall Street Journal, offered his opinion on how humans are not hardwired to be good investors. In his book "Your Money & Your Brain," Zweig dissected the human brain to discuss how humans are motivated to make decisions - mainly out of fear and greed. These emotions are valuable attributes for survival, but can become a hindrance when dealing with money. Emotions such as fear or greed often trump our logic, especially when fueled by certain behavioral biases. They usually lead us all to the same conclusion—we are really not as smart as we think we are."

Every year, a research company called DALBAR releases their Quantitative Analysis of Investor Behavior (QAIB) study, measuring the impact of investor behavior on investment returns. Their study from Jan. 1, 1984 to Dec. 31, 2013 revealed the average annualized return of the average equity investor was 3.69 percent. The S&P 500 Index earned an annual return of 11.11 percent during this same period. If you apply dollar amounts to those percentages, $100,000 invested by the average equity investor grew to $296,556, while $100,000 invested in the S&P 500 index grew to $2,358,275. DALBAR reported that psychological factors account for the bulk of this shortfall. (7)

Solution: Develop your investment portfolio based on academic research. In other words, invest based on evidence, not speculation. Develop a prudent investment strategy and resist the urge to change your plan based on emotions.

29. Using high-cost investments. The typical expense ratio for an actively managed mutual fund today is about 1.50 percent. Most variable annuities cost between two and four percent per year (8). Other types of "alternative investments" have costs even higher. The financial industry would like you to believe that you're paying these fees for "better performance," but research proves otherwise. Most active managers fail to beat their passive index benchmark.

Morningstar's own Russel Kinnel said it best: "If there's anything in the whole world of mutual funds that you can take to the bank, it's that expense ratios help you make a better decision. In every single time period and data point tested, low-cost funds beat high-cost funds (9)."

Solution: Invest in low-cost, broadly diversified index mutual funds or ETFs.

30. Trying to time the market's movements. Trying to time the market can be devastating to your long-term investment performance. According to a recent 10-year study by Morningstar, investors are losing an average of about 2.5 percent per year to poor market timing decisions. [10]

Another study looked at the impact of missing a few of the best days in the market. This study showed how $10,000 invested in the S&P 500 index from Jan. 1, 1994 to Dec. 31, 2013 grew to $58,352, an annualized return of 9.22 percent. There were a total of 5,037 trading days during this 20-year period. If you missed the 20 days with the biggest gains during this period, you would have accumulated $8,146, an annualized return of only 3.02 percent. [11]

The majority of big stock market gains and declines are concentrated in just a few trading days each year. Missing only a few days can have a dramatic impact on returns. Stock and bond funds fluctuate in value and you must accept that inevitability when you invest. It's easy to be swayed by the financial media and major market events but resist the urge to sell when the market is going down. As Warren Buffet said, "be fearful when people are greedy and be greedy when people are fearful." Don't make your investing decisions based on the news of the day. The only action you should consider taking when the market has declined significantly is to consider using some of your spare cash to invest when stocks are "on sale."

Solution: Buy and hold a properly diversified portfolio of low-cost index type mutual funds or ETFs. Have a strategic asset allocation plan matched to your risk tolerance, and filter out the noise of whatever else is happening in the market.

31. Not taking advantage of matching 401(k) contributions. If your employer offers a 401(k) or other type of retirement plan that has matching contributions and you don't participate, you are passing up free money.

Many employers offer to match the contributions you make toward a retirement plan. For example, an employer may offer to match 100 percent of the first three percent of salary you defer. If you make $50,000 per year, three percent of your salary is $1,500. That means if you defer $1,500 of your salary, your employer will contribute another $1,500 for you.

Solution: Participate in your employers 401(k) plan and don't pass up matching contributions!

32. Selecting investments solely upon Morningstar ratings. Morningstar is an independent investment research company that ranks mutual funds. They rate funds as one to five star funds with five being the best rating. While Morningstar provides excellent research, relying solely on their star ranking system for selecting investments could be a big mistake.

In a recent article published by The Wall Street Journal titled, "Mutual Funds' Five-Star Curse, " they looked at 403 five-star rated funds on Aug. 1, 2004 and compared the ratings on these funds 10 years later. The study found that two percent are now one-star funds, 11 percent are two-star, 25 percent of them are three-star, 30 percent dropped to four-star, and only 11 percent maintained their five-star status. So if you started with a five-star rated fund 10 years ago, you had about a one-in-nine chance of still having a five-star fund today. This didn't include funds that had a five-star rating ten years ago but no longer exist today. Furthermore, Morningstar's Fund Manager of the Decade in 2010, Bruce Berkowitz, followed up that award in 2011 by lagging the S&P 500 by 34.5 percent [12].

Solution: Buy and hold an effectively diversified portfolio of low-cost index funds.

33. Attempting to "beat the market" through active management. A 2008 study by Dartmouth finance professor Kenneth French estimated investors in the U.S. pay roughly $100 billion per year in fees and other expenses in an attempt to "beat the market" rather than investing in low-fee index funds that track the broader performance of the stock market [13].

Another study by Kenneth French and the 2013 Nobel Prize in Economics winner Eugene Fama determined only one percent of active managers outperformed the market due to skill [14].

The measure of successful active management lies in the ability of a manager or a strategy to deliver above-average returns consistently over multiple years. Demonstrating the ability to outperform repeatedly is the only proven way to differentiate a manager's luck from skill.

According to the SPIVA Persistence Scorecard, relatively few funds can consistently outperform their passive index benchmark. Out of 681 funds that were in the top quartile as of September 2012, only 9.84 percent managed to stay in the top quartile at the end of September 2014. Furthermore, 9.56 percent of the large-cap funds, 15.63 percent of the mid-cap funds, and 7.33 percent of the small-cap funds remained in the top quartile [15].

So how should investors interpret these findings? Keith Loggie, senior director of global research and design at S&P Dow Jones Indices, gave a straightforward answer in the New York Times [16].

"It is very difficult for active fund managers to consistently outperform their peers and remain in the top quartile of performance over long periods of time. There is no evidence that a fund that outperforms in one period, or even over several consecutive periods, has any greater likelihood than other funds of outperforming in the future," Loggie said.

Solution: Don't attempt to outperform the market through active management (stock picking and market timing). Instead, capture market returns with a long-term, buy and hold strategy using low-cost index mutual funds or exchange-traded funds.

34. Investing too much in your company stock. People often invest too heavily in their company stock. This poses a big risk. Just ask those who worked for companies such as Enron. Not only does owning too much company stock subject your portfolio to risk, but it also puts you in the position to potentially end up with no assets and no income if your company should suffer problems and you should lose your job.

Solution: Experts disagree on how much company stock you should own. Some say you should never own any company stock while others will tell you to limit your company stock stake to no more than 30 percent of your portfolio. My advice is to have no more than 10 percent of your company stock in your portfolio. Instead, invest in a diversified portfolio, preferably through low-cost index or similar type mutual funds.

35. Borrowing from your 401(k) or 403(b) plan. Most 401(k) contributions are made with pre-tax tax dollars. Your money grows tax-deferred and you pay taxes when you withdraw money from the plan. If you take out a loan, you're pulling out pre-tax dollars that you will then have to repay with money that has already been taxed. Then when you retire and start making withdrawals, the money is taxed again, so your loan gets taxed twice.

Paying back the loan can also be a problem if the borrower loses their job or leaves their employer, in which case the loan must be paid back immediately. If not repaid in full, the outstanding loan balance is considered a taxable distribution. If the borrower is younger than 59 and a half, there may be an additional early distribution penalty.

Solution: Develop an emergency fund for unexpected expenses and leave your retirement plans untouched until at least age 59 and a half.

36. Not checking your credit score. A credit score is a number assigned to a person that indicates to lenders their capacity to repay a loan. It's essentially a record of how well you've managed your money over time. Scores range from about 350-850 points, and the higher your score, the better. If you don't check your credit report regularly, fraudulent charges may go undetected. This may result in you not qualifying for a loan or having to pay a higher interest rate to borrow money.

Solution: Make a habit of regularly requesting a free credit report from one of the three credit rating agencies—Equifax, Experian, or Transunion. Each is required to provide you with a free report once a year. Report any mistakes you find and make sure they are corrected. To improve your credit report and credit score, make sure you always pay your bills (especially your credit cards) on time.

37. Failing to take advantage of federal tax breaks for the cost of higher education. There are several federal tax incentives to help you reduce the cost of higher education. Not utilizing these incentives could cost you hundreds or thousands of dollars.

Two programs that help families save money and pay for higher education are the Qualified Tuition Programs (also known as 529 College Savings Plans) and Coverdell Education Savings Accounts (ESA).

With a 529 plan, your investment earnings grow tax-deferred, and distributions are tax-free when used for qualified post-secondary education costs. Every state except Washington and Wyoming offers a 529 plan. Each state has unique rules and investment options, and expenses among plans can vary significantly.

Coverdell Education Savings Accounts also allow investment earnings to grow tax-deferred and distributions are tax-free when used for qualified post-secondary education costs as well as for elementary school costs.

Solution: There are pros and cons with 529 College Savings Plans and Coverdell Education Savings Accounts. Make sure to work with a CPA who is knowledgeable about the tax credits and other incentives for higher education, and work with a financial advisor who is knowledgeable on college education planning. He or she can help you compare a 529 plan to an ESA and show you which states offer the top rated 529 College Savings Plans.

38. Not taking advantage of qualified retirement plans. If you're saving money for retirement and you're not taking advantage of qualified retirement plans such as 401(k)s, 403(b)s, Simple IRAs, SEPs, or Traditional IRAs, you're missing out on thousands of dollars in tax benefits.

If you're in a 25 percent tax bracket, every dollar you contribute on a pre-tax basis could potentially save you 25 cents. Additionally, money in qualified retirement plans accumulates tax-deferred, which means you're not required to pay taxes on this money until you withdraw it. To illustrate the advantages of tax-deferred growth, consider this: If you are age 30 and contribute $5,000 per year until age 65, increasing your contributions by 3.5 percent each year, you would accumulate $1,272,417 at 8 percent annual interest, assuming a combined federal and state income tax rate of 30 percent. If you were to save that same amount in an account where you had to pay tax on the earnings each year, you would accumulate only $809,489, a difference of $462,928 or 36 percent.

Solution: Maximize contributions to qualified retirement plans each year.

39. Not contributing to IRAs in addition to employer sponsored plans. If you are contributing to an employer-sponsored retirement plan, such as a 401(k), 403(b), Simple IRA, or SEP, you may also be eligible to make contributions to a Roth or Traditional IRA. Make sure to consult with your CPA as there are "phase-out" rules that may prohibit you from making IRA contributions in addition to employer sponsored plan contributions if your income is too high.

Solution: Learn about the qualified retirement plans you are eligible for and do your best to maximize contributions to these plans each year.

40. Waiting until April 15 to make IRA contribution. People often wait until the tax-filing deadline of April 15 before making contributions to their IRA for the previous year. Doing so causes you to miss out on almost 16 months of potential interest.

To help you understand the value of investing monthly versus waiting until the end of the year to invest, consider this example: If you are age 35 and wish to have $1,000,000 saved up by age 65, you would need to invest $442 per month, assuming a 10 percent annual return. If you invest annually (at the end of each year) instead of monthly, you must invest $771 more each year to accumulate the same amount of money.

Solution: If you have the money, make your IRA contribution Jan. 1 each year. If you can't afford to make the entire annual contribution at the beginning of the year, divide the annual maximum contribution amount by 12 and set up automatic monthly deposits from your checking account into your IRA. This type of systematic investing is key for growing your retirement assets. Make sure you update your monthly deposits each year to keep up with higher annual contribution amounts. And, if you are age 50 or over, you qualify for an extra "catch-up" contribution amount.

An additional benefit of systematic investing is it automatically provides dollar-cost averaging. By investing the same amount each month, you automatically purchase more shares when prices are down and fewer shares when prices are up. In a volatile period, the result of this can be a lower average cost, hence the term "dollar-cost averaging."

41. Not taking advantage of a spousal IRA contribution. If you are married and you file a joint income tax return, you and your spouse can each make IRA contributions even if only one spouse has taxable income. The amount of your combined contributions can't be more than the taxable income reported on your joint return. It doesn't matter which spouse earned the income.

Solution: If only one spouse has earned income, open a spousal IRA and contribute to it.

42. Not investing in a Roth IRA. For many, Roth IRAs (and now Roth 401(k)s) will provide superior tax benefits over Traditional IRAs and 401(k)s. Roth IRAs and Roth 401(k)s do not offer tax advantages up front, but instead reward you with tax-free distributions at retirement. Other advantages of a Roth are: The tax-free withdrawals in retirement won't increase your taxes on Social Security benefits. There are no mandatory withdrawals starting at age 70 and a half (as with Traditional IRAs), and money left to heirs is income tax-free rather than being taxed at their top income tax bracket.

The same general contribution limit applies to both Roth and Traditional IRAs. However, a Roth IRA contribution might be limited based on your tax filing status and income. If you make too much money, your ability to contribute to a Roth could be "phased-out." In 2015, the "phase-out" range for taxpayers making contributions to a Roth IRA is $183,000 to $193,000 of adjusted gross income for married couples filing jointly. For singles and heads of household, the income phase-out range is $116,000 to $131,000.

Solution: Speak to your financial advisor and/or CPA to determine which type of IRA will provide you with superior benefits.

43. Taking too large of distributions from your portfolio in retirement.
Withdrawing too much money from your portfolio in retirement, especially at the beginning of retirement, subjects you to the risk of running out of money before you die.

Solution: Develop a budget for spending in retirement and meet with your advisor at least once a year to review your retirement income distribution strategy. Most experts generally agree that portfolio withdrawal rates should not exceed four to five percent per year.

44. Not doing a Roth IRA conversion. You can convert all or a portion of your Traditional IRA into a Roth IRA and enjoy tax-free withdrawals after retirement. When you convert a Traditional IRA to a Roth IRA, you have to include the amount you convert as taxable income in the year of the conversion and pay tax on that income.

Deciding whether a Roth conversion makes sense for you depends on several factors, such as your future tax bracket, your time horizon for investment, your net worth, your estate planning goals, and whether you have cash on hand to pay the conversion tax. If you anticipate a fairly high income at retirement, the Roth IRA will most likely beat out the Traditional IRA. However, if you anticipate a lower income in retirement, a Traditional IRA may make more sense. Depending on how low your income is, you may be able to withdraw money from a Traditional IRA and not pay tax on that income.

One option for Roth conversion is to gradually convert Traditional IRAs to a Roth IRA over a period of years. For example, if you convert $200,000 in equal amounts over four years, you would report $50,000 each year and spread the tax over four years.

Solution: Speak to your financial advisor and/or CPA to determine if a Roth conversion makes sense for you. At Solid Rock Wealth Management, we have a Roth conversion calculator that analyzes the costs and benefits of a Roth IRA conversion.

45. Withdrawing money from the wrong account. The typical advice for retirees is to withdraw money from taxable accounts first and allow tax-deferred and tax-free accounts to continue growing (until age 70 and a half, when required minimum distributions for Traditional IRAs begin). However, if your taxable accounts have accumulated large capital gains and you are in a high tax bracket, you may want to leave those accounts to your heirs, because they'll receive those assets with a step up in cost basis, which eliminates the capital gains tax.

Solution: Work with your financial advisor and/or CPA to determine which withdrawal strategy is best for you.

46. Depending on a business for retirement. Many business owners fail to invest in anything besides their business. It's common for small business owners to depend on the eventual sale or family succession of their business to fund their retirement. Relying solely on your business retirement carries extra risk.

Solution: Contribute to tax-qualified retirement plans while you are working.

47. Paying too high of fees for a 401(k) plan. Many people have no idea how much they are paying for their company retirement plans. Trying to figure out how much you are paying in fees can be a difficult and confusing task.

Until recently, participants in employer-sponsored plans, such as 401(k)s and 403(b)s had no way of knowing exactly how much their plan cost. In July of 2012, the U.S. Department of Labor's 401(k) fee disclosure rule went into effect. Under this rule, plan administrators are required to send you quarterly statements showing your investments' rates of returns and investment-related fees.

The Labor Department classified 401(k) fees into three categories: plan administration fees, investment fees, and individual service fees.

Plan administration fees include expenses for basic administrative services such as plan record keeping, accounting, legal, and trustee services. These fees are sometimes included in the investment fees and deducted from investment returns. In other cases, plan administration fees are a separate charge paid by the employer.

Investment fees are expenses associated with managing the investments in the plan. They are generally assessed as a percentage of assets invested.

Individual service fees are fees for additional services, such as processing a loan from the plan.

Total plan fees can run as high as four percent as a percentage of assets invested. An acceptable level is around one and a half percent for everything.

Solution: If you're a participant in an employer-sponsored retirement plan, ask the plan sponsor to provide you with a breakdown of all fees of the plan. If you're an employer/plan sponsor, make sure you or the company advisor offering the plan shows you the breakdown of what all fees are. It is best to work with a fee-only registered investment advisor who has a fiduciary responsibility to act in your best interest.

48. Paying late fees. It's common for people to pay late fees even though they're keeping up with their bills. Late fees not only cost a lot of money, they can also negatively affect your credit score.

Solution: To help you avoid paying late fees, call your credit card companies and service providers and ask them to have your due date changed to the day of the month that will work best for you. Having due dates grouped together may make it easier to avoid paying late fees. Better yet, set up your bills on auto debit from your checking account. Just make sure you don't incur overdraft charges.

49. Paying full retail price. Neglecting to comparison shop for items or to become a "sale-shopper" can end up costing you a lot of money over time. First of all, if you're in a 25 percent tax bracket, you need to earn $125 to spend $100. So really, saving 25 percent on an item you purchase is saving you more than the 25 percent discounted price. Another way to look at this is if you save 25 percent on an item, it's like earning a guaranteed investment return of more than 25 percent. While it's wise to shop for items on sale, be careful not to purchase things you don't need just because they're on sale. Be frugal, not foolish.

Solution: There are many online resources to help you comparison shop. Many companies have sales at the same time each year, so discipline yourself to wait for these sales. Developing a calendar of company sale dates may be helpful.

50. Holding cash in qualified retirement plans. The reason to hold cash is for liquidity—easy accessibility at a stable value. You pay for the benefit of liquidity by accepting lower returns than those available with other investments. Because qualified retirement plans have a penalty of 10 percent for distributions prior to age 59 and a half, it doesn't make sense to hold cash in your qualified retirement plan.

Solution: Keep your cash in an emergency fund outside your retirement plan, and save your retirement plan for other types of investments.

51. Withdrawing money from a retirement plan for non-retirement purposes. If you withdraw money from a qualified retirement plan, such as a Traditional IRA or 401(k), you'll have to pay taxes plus an additional 10 percent penalty on the withdrawal amount.

A high percentage of workers (especially young workers) cash out their company retirement plans when they switch jobs. This is a costly mistake.

Solution: Once you save money in a tax-deferred retirement account, never take it out until after you retire. If you switch jobs, set up a Rollover IRA and transfer your company retirement plan into it.

52. Not rebalancing investments. A properly diversified investment portfolio should be comprised of multiple asset classes. Rebalancing is the act of selling asset classes that have gone up and buying asset classes that have gone down, so you maintain your original target allocation percentages. By not rebalancing investment holdings back to target allocations, your portfolio will likely become more risky over time with higher percentages of your money in riskier (more volatile) asset classes.

Solution: Establish a target asset allocation that is appropriate for you based on your goals and risk tolerance. Rebalance your portfolio back to its target allocation on a regular basis.

53. Refinancing a loan. While it may not be a mistake to reduce the interest rate on your mortgage, refinancing could cost you more money than not refinancing by significantly extending the length of your indebtedness. Remember there are significant costs to refinancing a loan. Also, don't use refinancing as an opportunity to take out cash. Your goal should be to build equity not to make payments forever.

Solution: Only refinance if you plan to be in your home for many years and if you can significantly reduce your interest rate. There are calculators to help you determine your break-even point for refinancing. If possible, it's wise to continue making the same payments as you did under the higher rate loan, so you pay off your mortgage sooner.

54. Investing in a variable annuity, especially in a retirement plan. Variable annuities are investment contracts offered through insurance companies. In my opinion (and many others), there are much better investment options than Variable Annuities. One reason they are so popular among financial advisors is because they pay high commissions—typically around seven percent.

Variable annuities offer a range of investment options called sub-accounts, which are similar to mutual funds. Fees inside a variable annuity are typically very high—about two to four percent per year (17). Compare this to mutual funds that may have fees of only 0.20 percent to 0.50 percent per year. Besides having high fees, there are several other disadvantages of variable (and fixed) annuities.

While the gains you earn in a variable annuity are tax-deferred, the gains are taxed as ordinary income when withdrawn. Because ordinary income tax rates are currently higher than capital gain rates, you may pay significantly more in taxes with an annuity than you would with, for example, a stock mutual. Your heirs also do not receive a stepped up basis upon death in a deferred annuity. Conversely, money held in a stock mutual fund receives a stepped up basis upon death. Not receiving a stepped up cost basis could cost your heirs tens of thousands of dollars.

Annuities can be very complex with many moving parts. Most deferred annuities have "surrender charge" penalties if you cash them in or take more than 10 percent of the account value out prior to the expiration of a surrender charge period. There is also a 10 percent penalty for taking money out of an annuity prior to age 59 and a half.

Additionally, variable annuities are often sold inside qualified retirement plans. Retirement plans are tax-deferred accounts to begin with, so by putting an annuity in a retirement plan, you are paying unnecessary costs and are subjecting yourself to higher penalties if money is withdrawn prior to age 59 and a half.

Solution: Instead of investing in annuities, invest in low-cost, tax-efficient index mutual funds or ETFs. Maximize contributions each year to qualified retirement plans. If you can afford to invest more than your qualified plans allow each year and you want the tax-deferral annuities offer, talk to a fee-only Registered Investment Advisor. They may be able to offer you a variable annuity with very low fees and no surrender charges.

55. Earning nothing on your savings accounts. Interest rates are extremely low these days, but that doesn't mean you should leave money in accounts that pay little to no interest.

Solution: Keep small amounts in your bank accounts (but make sure not to incur overdraft charges – another costly mistake) and keep excess cash in money market accounts. Money market accounts typically pay higher interest than bank savings accounts, and you can set up transfers between your bank and money market accounts. Shop online for the best money market rates.

56. Not funding a Health Savings Account. A Health Savings Accounts (HSA) is a savings account designed to help you pay for health care expenses. If you are not contributing to a HSA, you're missing out on a significant tax savings each year. A HSA gives you a triple tax break—your contributions are tax deductible, the money in the account grows tax-deferred, and the funds can be withdrawn tax-free for medical expenses.

To be eligible for a HSA, you can't be enrolled in Medicare, be claimed as a dependent on another person's tax return, and you must have a qualified high deductible plan. In 2015, the minimum annual deductible of a qualified HSA plan for an individual is $1,300 and $2,600 for a family. Annual out-of-pocket expenses – deductibles, copayments, and other amounts (not premiums) – cannot exceed $6,450 for self-only coverage and $12,900 for family coverage. The maximum contribution in 2015 is $3,350 for an individual and $6,650 for a family. If you are age 55 or older, you can make an extra $1,000 contribution.

Don't confuse a HSA with a FSA, or Flexible Spending Account. While you can use both accounts to pay medical bills, there are two big differences:
1. An HSA lets you roll over any money you don't spend by Dec. 31.
2. After age 65, you can withdraw money for non-medical expenses without owing a tax penalty.
A FSA is a "use it or lose it" account. If you don't spend the money you've put in before year's end, it disappears.

Solution: If you are eligible to establish a Health Savings Account, establish and fund your account by the end of the calendar year. Many health insurance providers offer Health Savings Accounts and so do a lot of banks. Some HSA providers allow you to invest in mutual funds, giving you the opportunity to earn greater returns.

57. Not funding a state Medical Savings Account. Some states offer Medical Savings Accounts, which are similar to Health Savings Accounts. These accounts typically have smaller contribution limits and allow you to deduct annual contributions from your state income tax.

Solution: Ask your CPA if your state allows tax-deductible contributions to a Medical Savings Account. If they do, consider making annual contributions to it.

58. Not establishing or participating in a Cafeteria Plan. If you're an employer and you're not offering a Cafeteria Plan, you could be passing up significant payroll tax savings each year. If you're an employee and you don't participate in a Cafeteria Plan, you could be giving up hundreds of dollars per year in lost income tax savings.

A Cafeteria Plan is a benefit provided by employers that allows employees to contribute a certain amount of their gross income to a designated account(s) on a pre-tax basis. These accounts are for insurance premiums and medical, dental, and dependent care expenses not covered by insurance, from which employees can be reimbursed throughout the plan year as they incur the expenses. A Cafeteria Plan allows employees to reduce their gross income; thereby reducing the amount they pay in Federal, Social Security, and some state taxes.

Solution: If you're an employer, seek out providers of Cafeteria Plans for your company. If you're an employee that works for a company offering a Cafeteria Plan, calculate how much you spend on average each year on qualified benefits and run those expenses through the Cafeteria Plan. Because a Flexible Spending Account cannot provide cumulative benefits to employees beyond the plan year, they are subject to an annual "use it or lose it" rule. So be careful not to allocate too much to the plan.

59. Paying fees to banks for checking and saving accounts. The fees charged for checking and savings accounts and other simple services can vary from bank to bank. Some banks offer accounts with no fees.

Solution: Comparison shop among banks to find those offering the best services and lowest fees.

60. Not consolidating investment accounts. I commonly find people who have multiple investment accounts scattered all over the place. These accounts can often be consolidated. There are several disadvantages of having more than one of the same type of investment account. One is that having multiple accounts makes it difficult to maintain a cohesive asset allocation strategy with all your money. Since asset allocation accounts for over 90 percent of investment performance [18], your overall performance may suffer and you may be taking a greater risk than you should. Secondly, having multiple accounts often results in paying additional fees.

Solution: Simplify your life and reduce costs by consolidating the investment accounts you can.

61. Investing in a fixed, equity index annuity. An Equity Index Annuity (EIA) credits interest to the annuity based on the performance of a stock market index such as the S&P 500. The sales pitch for EIA sounds compelling – get upside potential of the stock market with no downside risk. Unfortunately it's not that simple. People selling EIA's like to talk about the benefits. What you don't usually hear are the downsides of an EIA, such as how they don't credit dividends of the stock index, and the insurance company can change the policy caps, participation rates, and fees.

EIAs are very complex and difficult to understand. According to an article in Forbes titled, "The Truth About Equity Index Annuities," one of the most comprehensive papers on the problems and complexities of EIAs was prepared by Craig J. McCann, Ph.D., CFA of the Securities Litigation & Consulting Group, Inc. He concluded:

"Existing equity-indexed annuities are too complex for the industry's sales force and its target investors to understand the investment. This complexity is designed into what is actually a quite simple investment product to allow the true cost of the product to be completely hidden."

"The high hidden costs in equity-indexed annuities are sufficient to pay extraordinary commissions to a sales force that is not disciplined by sales practice abuse deterrents found in the market for regulated securities."

"Unsophisticated investors will continue to be victimized by issuers of equity-indexed annuities until truthful disclosure and the absence of sales practice abuses is assured."

The Forbes article also explained that the SEC has issued warnings about EIAs as well as the Financial Industry Regulatory Authority (FINRA). Here is, perhaps, the most important point expressed by FINRA: "Caution! Some EIAs allow the insurance company to change participation rates, cap rates, or spread/asset/margin fees either annually or at the start of the next contract term. If an insurance company subsequently lowers the participation rate or cap rate or increases the spread/asset/margin fees, this could adversely affect your return [19]."

Solution: If you want the opportunity to capture the gains of the stock market, invest in low-cost, tax-efficient index funds in accordance with your tolerance for risk. If your risk tolerance is low, your portfolio should be comprised mainly of short-term, high credit quality bond funds.

62. Not avoiding probate. Probate is the process of settling one's estate. Typically, probate involves paperwork and court appearances by attorneys with fees paid from estate property. Probate can be costly and time consuming, and the probate files are public record. Avoidance of probate is generally a preferable option. The Uniform Probate Code exists in some states, which helps to simplify probate and reduce costs. While this may somewhat reduce the costs and time delay of probate, it does not eliminate them. Many people think if they have a will, they will avoid probate. This is not true. If you have a will, your heirs will go through probate.

Solution: There are several ways to avoid probate. One way to avoid probate is with a living trust. A living trust can avoid probate, significantly shorten the time it takes to settle an estate, and can keep your affairs private. Another way to avoid probate with your investment and savings accounts is to establish them as Transfer on Death (TOD) and Payable on Death (POD) accounts. This way, upon death, the proceeds go directly to your named beneficiary without going through probate. Some states allow you to place a "beneficiary deed" on real property. This enables you to pass property to the beneficiary you name and avoid probate.

63. Inadequate life insurance coverage. Leaving your family with insufficient resources upon your death is a tragic mistake. With the low cost of term-life insurance these days, it's foolish to not maintain sufficient coverage.

Solution: There are numerous online tools to help you accurately estimate the amount of life insurance you should own. Five to 10 times your annual income is a common rule of thumb, but everyone's situation is different. Term-life insurance allows you to purchase the most coverage for the lowest rate. If you need life insurance for 20 years, it's typically best to purchase a 20-year term policy versus an annual renewal or shorter length term policy.

64. Not updating beneficiary designations. If beneficiary designations are not updated after a life change, such as a birth, death, adoption, marriage, or divorce, the death benefit proceeds may end up being paid to someone you didn't intend to receive them.

Solution: One way to address this, especially for young couples, is to list "all surviving children of the union of (name husband and wife) shared equally" in the beneficiary section. Naming a trust as a beneficiary can also solve this problem. Other tips for beneficiary designations are to make sure they are clearly readable, and that you list the percentage for each beneficiary along with their relationship to you and their contact information. In an attempt to divide money between beneficiaries, avoid naming different beneficiaries for different accounts. It is usually better to name them all in each contract and specify percentages to go to each one listed.

65. Naming minors as beneficiaries. Life insurance or other benefits are often paid to children before they are emotionally or legally capable of managing it. One should avoid leaving assets to minors outright. If you do, a court may need to appoint someone to look after the funds, a cumbersome and often expensive process.

Solution: Establish a trust for minors and name that trust as the beneficiary of your minor children. You can set up the trust in such a way that life insurance or other proceeds are to be spread out over a number of years, rather than your children being able to take them in a lump sum when they reach the age of majority, typically age 21.

66. Naming your estate as beneficiary of a life insurance or annuity policy. If a person's estate is named as the beneficiary of a life insurance or annuity policy, the proceeds are needlessly subjected to probate and claims of the insured person's creditors.

Solution: Name individuals or a trust as beneficiary.

67. Naming a disabled or special needs child as a beneficiary. If you have a disabled or special needs child and name that person as a beneficiary, they may lose out on government benefits.

Solution: Setting up a Special Needs or Supplement Needs trust and naming that trust as the beneficiary may preserve a disabled or special needs child's ability to receive government benefits.

68. Not naming a contingent beneficiary. Life insurance and annuity policies have two sets of beneficiary designations: primary and contingent. If the primary beneficiary is not alive when the insured person or annuitant dies, and no contingent (back-up) beneficiary is named, proceeds will be paid to the estate, subjecting them to probate.

Solution: Make sure you name a contingent beneficiary.

69. Losing out on the stretch provisions of a retirement account. If you name an individual as a beneficiary of a qualified retirement plan, such as an IRA, they may be allowed to stretch the proceeds of that retirement account over their life expectancy, potentially reducing income tax consequences. If you name your estate, the full amount in the plan must be paid out (and taxed) within five years.

Solution: Name individuals as beneficiaries of retirement plans. If you have a large IRA, you may want to consider establishing an IRA Trust.

70. Not using an IRA Trust for large IRA accounts. IRAs are typically protected from the claims of creditors while the account owner is alive. However, once the IRA account owner dies and the IRA is passed to an individual beneficiary, the IRA assets often lose their protected status.

Solution: To preserve an IRA's protected status for your heirs, set up an IRA Trust. An IRA Trust is a special type of revocable living trust designed to be the beneficiary of an IRA. Assets passing into a "sub-trust" of an IRA trust help protect the individual beneficiary from creditors, lawsuits, and divorcing spouses. They can also provide protection from beneficiaries who are lousy at managing money.

71. Not funding a living trust. A living trust can only control assets to which it holds title. If you establish a living trust, you need to re-title your assets into the name of the trust. If your living trust owns your assets and is set up correctly, when you die, your beneficiaries will receive those assets without having to go through probate. If you fail to transfer your assets into the name of the trust, your heirs may have to go through probate and much of the benefits a living trust offers will be wasted.

Solution: Re-title your assets to the name of your living trust. The attorney who set up your trust should assist you with this. Make sure they do their job.

72. No estate plan. Unfortunately, far too many people put off estate planning until it is too late. There are many estate preservation tools and strategies you can use to maximize an inheritance for your heirs, but it's up to you to take action.

Solution: Make an appointment today with an estate planning attorney.

73. Outdated plan. An outdated plan could be as bad as not having any plan at all. Changes, such as the birth of a child or grandchild, an adoption, death, marriage, divorce, new property acquisition, inheritance, or change of address, may require changes to your plan. Additionally, tax law changes and/or changes to rules regarding investments, trusts, and retirement and estate planning may require an update to your plan.

Solution: Update your estate planning documents each year. Stay informed about tax law changes and talk to your financial advisor, CPA, and attorney each year to see if there have been any changes that require you to alter your plan.

74. Dying without a will. If you die without a will, it is called "dying intestate," and your assets will be distributed under the Law of Intestate Succession in your state. These laws may not be in line with your wishes.

Solution: Establish a will or a living trust.

75. Failure to plan for potential incapacity. Incapacity means you are unable to make decisions for yourself. Incapacity may result from an injury, a stroke, heart attack, dementia, etc. If you're unable to handle your affairs due to incapacity, having a Will won't help. A Will only deals with what happens after you die. Not having the proper documents in place upon your incapacitation might require a costly guardianship proceeding. If you do not want to be kept alive on life support under circumstances of a terminal or irreversible condition, a directive to physicians should be considered.

Solution: Meet with an attorney to establish your advanced directives. A durable power of attorney will allow you to select in advance who will handle your financial affairs in the event of incapacity. Likewise, a medical power of attorney will allow your selected person to arrange for medical care if you become incapacitated.

76. Lack of a coordinated plan. The lack of a coordinated plan could result in conflicts between your estate plan, property titles, and other beneficiary designations. Unless your property titles and beneficiary designations are consistent with your trust or will, your assets may not pass to the desired beneficiary. For example, if you've stated in your will that half of the real estate you own should go to your children upon your death, but your property is owned jointly with your wife, your real estate will pass to your wife upon your death.

Solution: Work with a team of advisors. Today's complex financial world requires a comprehensive and integrated approach for the effective preservation of your wealth. An effective estate plan must take into account all areas of one's life, including investments, retirement planning, tax strategies, risk management, wealth preservation and other components. No single person can be an expert in all these different areas. This is why it is wise to work with a team of professionals who collaborate with each other. A team approach will help ensure all areas of your financial life are properly addressed, and your estate plan effectively achieves your goals.

77. Improper use of jointly held property. Property titled in joint tenancy with rights of survivorship (JTWROS) passes, by law, directly to the surviving joint owner and avoids probate. Because owning assets in joint tenancy is a simple way to pass assets and avoids probate, people often title assets jointly with family members or friends. Below are some of the problems that can result from this.

Capital gain taxes. When you gift stock or real estate to someone, they receive your cost basis in the asset. When you leave stocks or real estate to someone upon your death, they receive a "stepped up" cost basis to the fair market value of the asset upon your date of death. Consequently, if you list stock or real estate in JTWROS with someone you are essentially making a gift to them. Consequently, they may end up paying more in taxes than if you left it to them upon your death.

For example, after her husband died, a mother put her daughter on the deed of her home as a joint owner. When the mother dies, the daughter becomes the sole owner of the home, but because listing her daughter on the deed was considered a gift, the daughter loses out on a step up in basis on half the value of the home. Therefore, when the daughter sells the home, she may owe more capital gain tax than she would if she inherited the entire property from her mom. So no matter how well your intentions may be to gift the family home to your child, you may very well end up costing them money. Instead, create an estate plan that passes on the home via an inheritance.

Gift tax issues. Unless an exception applies – as is the case when the joint owner is the owner's spouse – listing assets in JTWROS can generate a taxable gift in the current year if the value of the asset is worth more than the annual gift tax exclusion amount ($14,000 in 2015). This means one can give cash or assets of that amount or less to another person each year without paying gift tax. When you put your child's name on the deed of real estate, you are essentially giving your child a hefty sized taxable gift. This cannot only cause them to pay more capital gain tax as described above, but it can also reduce your lifetime gift exemption amount.

Loss of control and disinheriting children. Another potential problem with holding property in JTWROS with a spouse is that upon the first spouse's death, the surviving spouse can do whatever he or she wants with the assets, possibly against the wishes of the deceased spouse. For example, a husband and wife own property jointly and the husband dies. The wife could remarry and name her new spouse as a joint tenant on her property or give the new husband her property through her will. The result is your children could end up not inheriting your assets. A potentially better way to own assets with your spouse is in a trust. The instructions of the trust could be set up to allow your surviving spouse to receive income from the assets in the trust while he or she is alive, with your kids receiving the money left in the trust when your spouse dies. If property is held in JTRWOS with person A, and person A is involved in a lawsuit or divorce, person B's assets are subject to the risk of person A's creditors.

Solution: Working with an attorney who specializes in estate planning can help alleviate many of the above problems. Make sure you communicate all of your assets and estate planning goals to them, so they can formulate a comprehensive and cohesive estate plan. Make sure to review your estate plan regularly to keep your plan up to date with tax law changes and changes to your personal situation.

This material was created to provide accurate and reliable information on the subjects covered. It is not, however, intended to provide specific legal, tax or other professional advice. Tax information can be sourced at www.irs.gov and your state's revenue department website. Because individuals' situations and objectives vary, this information is not intended to indicate suitability for any particular individual. State laws change frequently and the following information may not reflect recent changes in the laws. For current tax or legal advice, please consult with an accountant or an attorney. The information contained in this article is not tax or legal advice and is not a substitute for tax or legal advice.

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Chris Nolt is the owner of Solid Rock Wealth Management, Inc. and Solid Rock Realty Advisors, LLC, with offices in Bozeman, Montana and Fountain Hills, Arizona. Solid Rock Wealth Management and Solid Rock Realty Advisors are dedicated to helping people effectively grow and preserve their wealth. We use a comprehensive planning approach with a team of financial professionals, which addresses retirement planning, investment planning, estate planning, tax planning, charitable giving and risk management. Our wealth preservation strategies are designed to help our clients reduce taxes, increase retirement income and maximize the amount of wealth they pass on to their heirs and favorite charitable organizations.

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Chris Nolt, LUTCF

Chris grew up in Lewistown, Montana. He received a Bachelors degree in business from Montana State University in 1987 and entered the financial services industry in 1989. For over 25 years, Chris has been helping people reduce taxes, invest wisely and preserve their wealth. Chris has earned the designations of Certified Retirement Financial Advisor and Life Underwriter Training Council Fellow.

For more information or to request other Wealth Guides, call 406-582-1264 or send an email to: chris@solidrockwealth.com

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