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IRA and Retirement Planning Mistakes: Don't Fall Victim to Bad IRA and Retirement Plan Advice

By: James Lange | Wednesday, October 11, 2006

Clint Eastwood playing "Dirty Harry" warns, "A man's got to know his limitations." This advice is particularly appropriate for financial planners and advisors who are giving advice beyond their expertise. Though I am biased because I have over 27 years of technical expertise in the IRA and retirement plan area, the lack of knowledge in this area can cost clients hundreds of thousands or even millions of dollars.

I have seen financial planners without an adequate background in IRAs and retirement plans, acting without advice from counsel or even advice from other experts in the financial planning area, make enormously costly mistakes. That is costly to the clients, not the advisor.

IRA & Retirement Planning Mistakes That Can Accelerate Acceleration of Income Taxes and Can Cost You Up to a Million Dollars or More!

For example one advisor had both a father and son as clients. The father died leaving his IRA to his son. The advisor promptly transferred the IRA from the father's name to the son's name? Sounds o.k. to you? But it isn't o.k. If you transfer an inherited IRA to a non-spouse beneficiary without a special designation like "inherited IRA of Dad for the benefit of Son" you cause immediate income tax acceleration for the IRA beneficiary. So rather than having the ability to stretch an IRA or defer taxes for forty years, the son had to pay the taxes on the entire IRA distribution the year after his father died. Using reasonable assumptions, this mistake cost the son one million dollars over his lifetime.

Another time, a 55 year old retires from his company with a million dollars in a retirement plan. The advisor recommends using an IRC Code 72(t) election for the entire million dollars. Only a fraction of that money was needed for cash flow between ages 55 and 59. The result of the faulty advice was unnecessary massive acceleration of income taxes between ages 55 and 59. The appropriate response would have been to make an IRC 72(t) election for part of the IRA, not all of it.

Neither of these advisors is a bad person. As far as I know they might be wonderful spouses and loving parents. In fact, they could even be excellent money managers or product experts who have given excellent investment advice to hundreds of their clients. Where they failed, however, is not taking the time to become educated about IRAs and retirement plans or not seeking any additional help when they were confronted with issues related to IRAs and retirement plans.

It also grieves me to say that these types of mistakes are all too common and that terrible advice regarding IRAs and retirement plans is routinely provided to millions of clients.

Avoid These Costly IRA & Retirement Planning Mistakes - Do Your Research

If you are an advisor reading this, my suggestion, would be to read, study and attend some good seminars that will bring you up to speed on IRAs, Roth IRAs, and other retirement plans -- with good information you can really add value for your clients. Excellent sources for information include books by Seymour Goldberg, Ed Slott, Robert Keebler, Natalie Choate, Gregory Kolojeski, and of course my own book Retire Secure!.

If you are a client looking for an advisor and you have a significant IRA, I would suggest that you learn something about IRAs by reading a book by one of the authors mentioned above or conducting some other research. At a minimum, ask an advisor what expertise they have in IRAs and retirement plans. If the advisor's answer is, "What do you want to know?" I would repeat the question, "What expertise do you have in IRAs and retirement plans?" If they provide some vague information, ask them what books they have read, seminars they have attended, or can they show you any credentials that would certify their expertise in the IRA or retirement planning area.

Lack of expertise in the IRA and retirement plan area could, in many cases, be of more consequence than an advisor's ability to pick the appropriate investments.

Expert advice is particularly important during life's significant transitions such as retirement and planning for your estate. Incidentally, important transitions are also a great time to have money transferred to a new money manager, one who hopefully is competent with IRA and retirement plan issues.

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As one of the country's top IRA experts and author of Retire Secure!, James Lange, can keep you from jeopardizing your family's security. He has developed tax-savvy retirement and estate plans for over 800 U.S. citizens with appreciable assets in their IRAs and 401(k) plans. Your family's future depends on you signing up now for his monthly Retire Secure newsletter at <http://www.paytaxeslater.com>.

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