Why is it that so many of us, even those with stable careers, end up in poor financial shape?

In a recent study , the Federal Reserve Bank of St. Louis found not only that most Americans had saved little or nothing for retirement, but that only the top 10% of households had savings greater than $310,000. Even $300,000 or $400,000 isn't enough for a comfortable retirement for many people.

What's going on? As a financial advisor, I've reviewed hundreds of people's financial situations over the years. And it's clear that self-inflicted financial damage is taking a major toll. In other words, many of us are making costly mistakes that sabotage our financial futures. I've seen three of these mistakes over and over again:

--Cashing out your 401(k) when switching jobs. It can be tempting to dip in to your employer-sponsored retirement plan when you leave a job. But doing that can set your retirement savings way back. If you're below retirement age, and cash out $10,000 from your 401(k), for example, you could up paying $3,000 in taxes and early-withdrawal penalties. Worse, the lost compound-interest opportunity on that $10,000, over 40 years, could be about $450,000. If you need money between jobs, there are better solutions, such as taking a personal loan or rolling the money into an IRA within 60 days.

--Avoiding tax planning until the end of the year. Investors are happy when they're able to sell a large position and take profits. But that turns to disappointment when they are hit with a big capital gains tax, and when the additional income pushes them into a higher tax bracket. There are ways around these unpleasant surprises, but the key is to do tax planning earlier in the year. One solution involves tax-loss harvesting: selling stocks that have done poorly and don't figure to turn around any time soon, thus reaping tax losses that can be used to offset capital gains elsewhere.

--Not raising your retirement contribution as your earnings increase. This is a common trap that 401(k) participants fall into. They get pay raises over the years, and become accustomed to higher and higher standards of living. Yet they keep their contribution percentages the same, which leaves them unable to continue their accustomed lifestyles in retirement. Often, people don't recognize that they've got a retirement-funding shortfall under a last few years of their career—and that leaves them in a position where they need to sock away

15% or 18% of their earnings every year in order to catch up.
The bottom line is this: Don't think that having a good income and contributing to your retirement plan will necessarily guarantee you financial success in the long run.

To make smart decisions and avoid the kinds of mistakes discussed above, it can help to have a good financial advisor review your situation and guide you as you navigate your finances through the years. Don't hesitate to contact us with questions.