4 Ways to Help Keep Fees and Taxes From Nibbling Your Nest Egg

A woman came to my office recently to get my opinion on how her adviser was managing her portfolio.

She was in her early 50s, divorced and raising one child, and she had $250,000 stocked away in an account with a major brokerage.

I asked her to bring in her statements so I could do a fee analysis, and she balked. "I don't need that," she said. "They told me my fees are really low."

"But how do you know for sure?" I asked.

"Because they told me."

She was there for a second opinion because she wanted to get the most return on her investments. She wasn't even thinking about fees, taxes or anything else that might be eating away at her portfolio's bottom line.

And she's not unusual. At least three-quarters of the people who come to see me are paying more in fees than they realize. (Some don't even know they're paying fees at all.)

They feel guilty about getting a second opinion because they "love" their current financial professional who is "just so nice."

What I say instead is that there's only so much we can do with money that's invested in the market. We can help manage risk and choose each financial vehicle with care. In the end, though, the market is going to do what the market is going to do.

But what we also can do is be proactive about reducing fees and taxes, and help make their portfolio more efficient that way. Over decades, we could be talking about saving tens of thousands of dollars, maybe more - maybe even enough to retire earlier than they originally planned.

Here are some things you can do to help preserve your money:

1. Get a second opinion.

   If you feel as though your financial professional is always selling you something instead of giving you advice, or if after a meeting you still aren't clear on costs or what strategies are in place to deal with taxes and inflation, it may be time to move on. Many financial professionals will meet with you at least once at no charge, so you really have nothing to lose and potentially much to gain.

2. Do your homework on fees.

   Read your statements (and not just the number in bold at the bottom). Check out the prospectus when you purchase something, or have your financial professional go over it with you. This legal document has the facts you need to make an informed decision. Ask about the fees you'll pay to buy, sell, hold or otherwise deal with each financial asset. Know which fees will be on your statements and which ones won't, and ask how you can track the ones that aren't there.

3. Be sure tax efficiency is a major part of your overall plan.

   Taxes can affect your savings to and through retirement, and can even take a piece of your legacy. If most of your money is in a 401(k) or IRA, consider converting some of it to tax-efficient accounts. You can do this over time to help avoid taking a hit when you withdraw the money in retirement and continue to grow your nest egg in an efficient manner.

4. Work with a fiduciary.

   A financial professional who is held to the fiduciary standard is legally obligated to recommend products based on the best interests of clients. Being held to the fiduciary standard also requires that one must fully disclose his compensation and any conflicts of interest. This is especially important if you are at or near retirement age.

Many individuals get used to just going along with whatever a financial professional recommends. But the more you know, the better your chances of making and keeping the most cash for retirement.

Kim Franke-Folstad contributed to this article.