It's Never Too Late to Save for Retirement

Overview

Ways to save for retirement in midlife.

- Knowing how much you will need for retirement
- Tips on catching up with your savings
- Getting help with saving for retirement

If you have reached midlife and haven't saved much for your retirement, you aren't alone. A study by the American Council for Savings Education found that more than half of all baby boomers have saved less than $50,000 toward retirement and 15 percent have saved nothing.

No matter how much you have saved, you can take steps to build a more secure future. These range from reducing your expenses to taking advantage of changes in tax laws that allow people over 50 to catch up on saving by putting extra money into Individual Retirement Accounts (IRAs) or 401(k) savings programs.

Knowing how much you will need for retirement

Many people underestimate how much money they will need for retirement. For this reason, building a more secure financial future begins with understanding the income and expenses that you will have after you stop working.

- *Start by estimating how much money you will need in retirement.* As a general rule of thumb, your goal should be to put aside enough savings to match two-thirds to 70 percent of your current income. But the amount you'll actually need will depend on your personal circumstances, spending habits, and lifestyle.
- *Know how much you can gain by saving.* You may think that saving a small amount per week won't make much difference to your retirement. But consider a few numbers. Let's say that starting at age 50, you put $25 a week into a savings account that pays 4 percent interest and you don't touch the money. You would have $16,232 at age 60; $40,260 at age 70; and $75,827 at age 80. You can learn how much you would earn if you saved other amounts by using free online interest calculators. You can find these by searching the Internet for the words "compound interest calculator."
- *Understand your Social Security benefits.* Every year the Social Security Administration mails a statement of projected benefits to everybody over 25 who is not yet receiving benefits. You can also get a copy by going to *www.ssa.gov/mystatement*. Keep in mind that the age at which you can get your full benefits is going up. If you were born between 1943 and 1954, you can collect full benefits at age 66. If you were born in 1955 or later, you will have to wait longer. You can find out on the Social Security site when you can start collecting benefits. No matter when you were born, you can get reduced benefits starting at the age of 62. But if you do, you will get the lower amount for the rest of your life. In addition, if you keep working after you start collecting benefits,

you may have to pay more income taxes on your Social Security benefits. And if you're working and collecting Social Security benefits before you reach the full retirement age, the government may reduce your benefits in proportion to the amount you earn.

Tips on catching up with your savings

You'll need a come-from-behind plan if you have saved little or nothing until now. Here are some tips.

- *Pay yourself first.* Same some money from every paycheck, even if it's a very small amount. This will help you adopt a habit of saving.
- *Put more into your employer-sponsored retirement plan if your organization offers one.* If you're putting 5 percent of your income into an employer-sponsored retirement plan, such as a 401(k) or a 403(b) plan, increase it to 10 percent or more if possible. The money you put into a 401(k) or 403(b) plan reduces the amount of taxes taken out of your paycheck, and you don't have to pay taxes on the income you earn until you withdraw the money at retirement. And some employers will match a portion -- usually, around 3 percent -- of what you contribute to their 401(k) or other plans.
- *Use an automatic savings plan.* Your organization may have a payroll savings plan that lets you have money deducted from each paycheck deposited in a savings account at a bank or credit union. If so, start using this plan or increasing the amount you save through it. If you don't have a payroll savings plan at work, look into the options at your bank. You may be able to have money transferred automatically from a checking to a savings account.
- *Try to save at least 20 percent of your income.* Many experts recommend that people save at least 20 percent of their income between the ages of 40 and 60, because most workers reach the peak of their earning power then. If you can't save 20 percent now, work out a plan for reaching that goal. You can save through a combination of putting money into a retirement account, into a personal savings account, and through other investing that you do.
- *Have an emergency fund.* Make sure you have enough money to pay for an emergency such as a dental emergency or car-repair bill. Most financial professionals suggest having an emergency fund that consists of 3-6 months of basic living expenses. If you don't have emergency savings, you may have to dip into your retirement savings and lose the interest or tax breaks you would get from them.
- *Take advantage of tax breaks for late savers.* If you participate in a 401(k) or 403(b) plan at work, you can save extra money in an Individual Retirement Account (IRA). There are two types of IRAs. A *traditional IRA* lets you avoid paying taxes on income you earn from the IRA until you withdraw money at retirement. Another type of IRA, called a *Roth IRA*, gives you an extra reward for saving. If

you meet certain guidelines and keep your account open for at least five years, you can withdraw your earnings tax-free. There are restrictions on how much money you can contribute to an IRA, and regular IRA contributions may be deductible. If you're over 50, you can contribute additional amounts. Take advantage of these incentives.

Getting help with saving for retirement

As you think about the best way to step up your savings, you may want to get help from any or all of these resources.

- *Your bank.* Many banks offer a wide range of free financial services, such as budget worksheets or help with drawing up savings plans. You may want to talk to several banks to get a variety of ideas on the best way to meet your savings goals.
- *Your accountant or tax preparer.* Ask your accountant or tax preparer if you're missing out on important ways to save for retirement. A professional may give you practical tips that could have benefits for your retirement.
- *Financial planners.* A certified financial planner can help you explore a wide range of saving or investing options and develop a comprehensive financial plan for your retirement. You can find a planner by contacting your employee assistance program (EAP) or through the Financial Planning Association (*www.fpanet.org*).
- *Budget or debt counseling.* If you have trouble saving because you have a lot of debt, you may want to look into budget or debt counseling services. But beware of Internet debt counseling services that sound too good to be true. Instead, get in touch with a reputable group such as the National Foundation for Consumer Credit, *www.nfcc.org*, a nonprofit organization with nationwide affiliates that provide free or low-cost budget and debt counseling services and help with setting up debt repayment plans. A counselor can work with you on a confidential basis in a variety of ways -- in person, online, on the phone, or by mail.
- *Financial planning guides.* Most libraries and bookstores have helpful books on financial or retirement planning. You might begin with *Retire on Less Than You Think: The New York Times Guide to Planning Your Financial Future* (Holt/Times Books, 2004) by Fred Brock, the retirement expert for the *Times*. It offers practical tips on a wide range of topics for people in midlife.

Finally, remember that it's never too late to start saving. By taking the steps now, you'll be on your way to a more secure future.

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