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How to Catch Up on Retirement Savings

Are you on the other side of 40 without substantial savings for retirement? It's time to stop worrying and get down to the business of doing something about it. It's not too late, but it will take a lot of concentrated effort to get on the right track to a comfortable retirement. Here are some strategies you can put in place to boost your retirement savings:

Estimate How Much Money You'll Need in Retirement

The first step is knowing how much you will need to live on in retirement. Most experts agree that you will need at least 70% of your preretirement income to fund your retirement. Make sure to do a detailed analysis of your likely retirement expenses.

Determine Your Income Sources

Once you have a good idea of how much money you will need for retirement, you then need to determine the income sources you'll have. Look at what your Social Security benefit will be at various ages. Do you have a pension from a previous or current employer? If you have a 401(k) plan, you need to understand what its expected value will be at retirement age.

Set Goals and Develop a Plan

If you have a gap between your income sources and the amount of money you'll need to retire, you have to put strategies in place to close the gap. Set a goal of how much you'll need to save and in what time frame. Because you're playing catch-up, you can't afford to be too conservative with your investment selections, but you can develop a well-balanced plan that will help you met your goals with a risk tolerance that is comfortable for you.

Max Out Employer-Sponsored Plans

Hopefully, you have access to a 401(k) plan or some other type of retirement account. It may be difficult, but you should try to make the annual maximum contribution, which is $20,500 in 2022. This is one

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Frankly Speaking

The truth will set you free but first…it will piss you off! (Gloria Steinem)

The latest World Container Index – a key benchmark for container prices – has fallen again to $2,773 per 40-foot container. That's 73% lower than the peak rate in September of last year.-CNBC, November 10, 2022

Recession averted: The Houston Astros beat the Philadelphia Phillies to win the World Series, pushing the most reliable recession indicator we have (a Philly-based team won in 1929, 1930, 1980, and 2008) off for at least a year.-Morning Brew, November 7, 2022

"What do you want to do when you grow up?" Later life can be richly fulfilling, intensely satisfying, and even marked by a newfound attitude toward life. Dorothy Cantor's book by this title proves that there is more to life after work than material security.

Do you know how much you will need to retire & stay retired comfortably for the rest of your life? If not, would you like me to sit with you and **figure it out at no cost to you? If so, please call or reply.** ❍❍❍

How to Catch Up

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of the best ways to save for retirement because it automatically comes out of your paycheck. A traditional 401(k) plan will reduce your taxable income, which will help alleviate pressure. For example, if you are in a 35% tax bracket, your contributions will only cost you 65 cents for every dollar you contribute to the account.

If you are aged 50 or older, you can also make catch-up contributions of $6,500 in 2022 for a total contribution of $27,000. And you should always contribute enough to get the employer match if your employer has a matching program.

If you don't have an employer plan (or even if you do), you should start investing in a traditional or Roth IRA. You should set up an automatic transfer from your checking account to your retirement account. You can make contributions up to $6,000 in 2022 and $7,000 if you are aged 50 or over.

Downsize Your Life

By the time you retire, you will want a stream of predictable income to cover your expenses with a mixture of Social Security, a pension, and withdrawals from your retirement savings plan. If you won't be able to cover your expenses with these income sources, it may mean you need to downsize your life, which may require some sacrifices.

If you're an empty nester and still living in a big house, it has probably appreciated in value, and you may want to consider selling it and moving to a smaller home. In addition to saving on your mortgage payment, you'll save more on utilities, insurance, maintenance, and property taxes.

You may also need to think of other ways to cut expenses, such as driving a used car versus a new car or only going on one vacation a year versus two or more.

You don't want to wait until retirement to make these changes, since downsizing while you are still working will allow you to put these savings into your retirement plan.

Take a Second Job or Work Longer

If you have a serious gap in your retirement savings, you may need to consider taking a second job so you can invest the earnings. Get creative about ways to make more money. Do you have the writing skills to be a freelance writer? Maybe you're a great seamstress? A graphic designer or perhaps a programmer? Even a job as a pet sitter or dog walker may give you the extra income you need for savings.

You may also need to consider extending the time frame you are planning to work and retire later. For example, if you're 55 and want to retire at 62, contributing 20% of your income until retirement still won't be as impactful as working three more years until you are age 65.

If you wait to retire at age 70, you'll have even more time to rack up your retirement savings, and you will have fewer retirement years to cover. Additionally, if you wait until age 70 to take Social Security benefits, you could significantly increase your monthly benefit.

Pay Off Your Debt

It's not only about saving; it's about eliminating debt. If you have thousands of dollars in credit card balances, your retirement savings is most likely going to your credit card company in interest payments. Make a concerted effort to pay off your balances and continue to pay them in full every month.

With every dollar you find to put toward your retirement savings, set up an automatic transfer from your checking account or a direct contribution from your paycheck. This will help to ensure the money is going directly to your retirement savings.

Please call to discuss your retirement savings plans in more detail. ❍❍❍

Avoid Cosigning a Loan

To keep your credit rating high, avoid cosigning a loan for someone else. This can be difficult to enforce, since the request typically comes from a family member or friend. However, the reason this favor is typically needed is to satisfy a creditor who does not consider the person a good credit risk and wants additional assurance before granting the loan.

When you cosign a loan, you sign a legal document accepting responsibility for the entire debt. If the primary borrower falls behind in payments, the creditor can come to you immediately looking for payment. The creditor does not have to first exhaust legal remedies with the primary borrower.

Additionally, the primary borrower's late payment history is likely to appear on your credit report. The debt is also listed as your debt on your credit report, which may impair your ability to obtain another loan.

If you are a cosigner on a loan that the primary borrower can't repay, call the creditor immediately and try to negotiate. The creditor may agree to settle for a lesser amount to avoid legal or collection fees. But make sure the creditor agrees to keep your credit report clean for that lesser amount. When the debt is paid, review your credit report to make sure it is reported correctly. ❍❍❍

Growing Your 401(k) Plan

Your 401(k) plan's ultimate size is primarily a function of two factors — how much you contribute and how much you earn on those contributions. Of course, you know you should contribute the maximum amount possible ($20,500 in 2022 and $22,500 in 2023 plus a $6,500 in 2022 and $7,500 in 2023 catch-up contribution for individuals over age 50, if permitted by the plan). But what steps should you take to maximize your returns? Consider these tips:

✔ **Take advantage of employer matching contributions.** Contribute at least enough to take full advantage of any matching contributions. You simply lose the money if you don't use it. A 50% match on your contributions is the equivalent of earning 50% on your money in the first year. If you plan to contribute the maximum and your employer matches contributions, have the $20,500 taken out of your pay uniformly throughout the year. Most employers match your contributions as they are made, so you could forgo some matching if you reach the limit before year-end. For instance, assume you earn $150,000, your employer matches 50 cents per dollar on up to 6% of your pay, and you contribute 20.5% of your pay. After two-thirds of the year, when you have earned $100,000, you will contribute the maximum of $20,500 and your employer will have contributed $3,000. If you contribute 13.7% of your pay instead, your contributions will be spread throughout the year and your employer will contribute $4,500, an additional $1,500 match.

✔ **Select your investment alternatives carefully.** Since you are responsible for investment decisions, understand all alternatives and review all available information before making choices. Keep in mind the long-term nature of your retirement goal and select investments for that time period. For most participants, that will mean that a significant portion of their portfolio should be invested in growth alternatives, such as stocks.

✔ **Rebalance periodically.** Numerous studies have found that rebalancing reduces portfolio volatility, often with increased returns. By rebalancing, you are following a fundamental investment principle — you are buying low (those investments that are underperforming) and selling high (those investments that are performing well). Keep in mind that you set your asset allocation strategy because you believed those were the appropriate percentages of various investments that you should own. Thus, you need to make rebalancing a habit so your portfolio doesn't become higher-risk than intended. Since your 401(k) plan is tax deferred, there are no tax ramifications to buying and selling within the account.

✔ **Limit the amount of company stock owned.** Purchasing too much company stock is risky. Not only is your job and livelihood tied to the company, but your retirement savings are also tied to the same company. It is generally recommended that any one stock not comprise more than 5% to 10% of your portfolio's value. If you own company stock in your 401(k) plan, look at how much of your total balance it represents. Take steps to immediately reduce that percentage if it is over 10% of your total portfolio.

✔ **Don't borrow from your 401(k) plan.** While it may be comforting to know you can gain access to your 401(k) fund when needed, only borrow as a last resort. It's true that you are borrowing from yourself and will pay interest to yourself, but there are also hidden costs to this borrowing. When you borrow, some of your investments are sold. While your loan is outstanding, you miss out on any capital gains or other income those investments would have earned. Interest rates are typically very reasonable with 401(k) loans, often prime rate or a couple of points over prime. That makes it easier to pay back the funds, but could mean your 401(k) account is earning lower returns than if it was invested in other alternatives. Also, if you leave the company while a loan is outstanding, you must repay the entire balance within a short period of time or the loan will be considered a distribution, subject to income taxes and the 10% early withdrawal penalty if you are under age 59½ (55 if you are retiring).

Please call if you'd like help with decisions involving your 401(k) plan. ❍❍❍

Give Yourself a Money Makeover

A new haircut or wardrobe overhaul can work wonders in terms of giving someone a fresh outlook on life and a self-esteem boost. The same can be said for a money makeover.

Step 1: Identify your flaws. Any makeover begins with identifying what that you want to change. Sit down, make an honest assessment of your current financial state, and then list a few aspects you wish were different. For example, your list might include: save more money, purchase a house one day, stop relying on credit cards, or figure out where all your money goes.

Step 2: Decide what you want to change. Since you won't be able to tackle everything at once, you need to prioritize. Look at your list and highlight a few items that you think would make the biggest difference in your life and that you can actually do something about. For instance, you may wish you had more disposable income. A raise may not be on the table at work, but you may find more income by committing to a budget and reining in unnecessary purchases.

Step 3: Take action. The next step is to actually implement your makeover. Take the steps you need to make the necessary changes in your life. It may be helpful for you to come up with a calendar or list of specific action steps to keep you from getting discouraged.

Step 4: Get help if needed. You don't necessarily need fancy tools to give yourself a financial makeover. But it often helps when someone has your back. If you're worried about your ability to turn your makeover dreams into reality, you may want to seek the help of an expert on issues related to taxes, retirement, college planning, debt repayment, and more. Not only can they provide valuable and objective advice, but they'll also be a coach who can help you stay on track and achieve your money makeover goals.

Celebrate your success. As you take steps to change your financial life, be sure to stop and celebrate your successes. Give yourself a pat on the back — and perhaps a small reward — when you pay off that credit card, stick to your monthly budget, or set up automatic contributions to your retirement account at work. ❍❍❍

Credit Issues as You Age

To help ensure that you don't have credit problems as you age, consider these tips:

✔ **Apply for major loans while you are still working.** If you are getting close to retirement and know you'll need a loan, apply for credit a few years before retirement.

✔ **Make sure that credit cards are obtained as joint accounts.** If you have an individual account with your spouse listed as an authorized user, the lender can close the account if you die. However, if the account is a joint one, the creditor cannot automatically close the account or change its terms.

✔ **Ensure that both you and your spouse have a good credit history.** Review your credit reports, ensuring that all information is accurate and that you both have sufficient history. That way, either of you will be able to obtain credit.

✔ **If you are denied credit, find out why.** It could have been an error, or you may convince the lender to consider other information. You may also be able to negotiate a compromise with the lender. For instance, if the lender is concerned about your age when considering a 30-year mortgage, perhaps a 15-year mortgage would be acceptable. ❍❍❍

Financial Thoughts

Approximately 80% of adults who are age 62 and older are homeowners. Almost 35% of older adults are diagnosed with a major disease by age 65. Researchers compared home equity levels before and after a health shock, defined as the onset of diabetes, heart disease, lung disease, or cancer. They estimated that for each $10,000 borrowed from home equity after diagnosis, the probability of the disease being uncontrolled is reduced by 33%. The researchers also found a direct relationship between home equity levels and the likelihood of living longer (Source: University of Wisconsin-Madison, 2021).

While older respondents to a recent study were expected to have made many financial decisions, many did so with little knowledge of fundamental financial concepts. Fewer than 40% of survey respondents aged 55 to 59 demonstrated knowledge of making calculations related to interest rates, understanding inflation, and understanding risk diversification. Those who were financially literate had higher credit scores and performed better in exercises involving tasks such as choosing the best health insurance plan (Source: Pension Research Council, January 9, 2022). ❍❍❍