

It Isn't Too Late to Save for Retirement

If you're 40 or 50 and haven't begun, you must make the effort.

Provided by Benedict A. Mitchell Jr.

Some people start saving for retirement at 20, 25, or 30. Others start later, and while their accumulated assets will have fewer years of compounding to benefit from, that shouldn't discourage them to the point of doing nothing.

If you need to play catch-up, here are some retirement savings principles to keep in mind. First of all, keep a positive outlook. Believe in the validity of your effort. Know that you are doing something good for yourself and your future, and keep at it.

Starting later means saving more – much more. That's reality; that's math. When you have 15 or 20 years until your envisioned retirement instead of 30 or 40, you've got to sock away money for retirement in comparatively greater proportions. The good news is that you won't be retiring strictly on those contributions; in large part, you will be retiring on the earnings generated by that pool of invested assets.

How much more do you need to save? A ballpark example: Marisa, a pre-retiree, has zero retirement savings at age 45 and dedicates herself to doing something about it. She decides to save \$500 each month for retirement. After 20 years of doing that month after month, and with her retirement account yielding 6% a year, Marisa winds up with about \$225,000 at age 65.¹

After 65, Marisa would probably realize about \$10,000 a year in inflation-adjusted retirement income from that \$225,000 in invested retirement savings. Would that and Social Security be enough? Probably not. Admittedly, this is better than nothing. Moreover, her retirement account(s) might average better than a 6% return across 20 years.¹

The math doesn't lie, and the message is clear: Marisa needs to save more than \$6,000 a year for retirement. Practically speaking, that means she should also exploit vehicles which allow her to do that. In 2014, you can put up to \$5,500 in an IRA, \$6,500 if you are 50 or older – but you can sock away up to \$17,500 next year in a 401(k), 403(b), Thrift Savings Plan and most 457 plans, which all have a maximum contribution limit of \$23,000 for those 50 and older.²

If Marisa is self-employed (and a sole proprietor), she can establish a solo 401(k) or a SEP-IRA. The yearly contribution limits are much higher for these plans. If Marisa's 2013 net earnings from self-employment (after earnings are reduced by one-half of self-employment tax) work out to \$50,000, she can put an employer contribution of up to \$10,000 in a SEP-IRA. (She must also make similar percentage contributions for all "covered" employees, excepting her spouse, under the SEP IRA plan.) As a sole proprietor, Marisa may also make a combined employer-employee contribution of up to \$33,000 to a solo 401(k) this year, and if she combines a defined benefit plan with a solo 401(k), the limit rises to \$47,400. If her 2013 net earnings from

self-employment come out to \$150,000, she can make an employer contribution of as much as \$30,000 to a SEP-IRA, a combined employee salary deferral contribution and employer profit sharing contribution of up to \$53,000 to a solo 401(k), and contribute up to \$96,300 toward her retirement through via the combination of the solo 401(k) and defined benefit plan.³

How do you save more? As you are likely nearing your peak earnings years, it may be easier than you initially assume. One helpful step is to reduce some of the lifestyle costs you incur: cable TV, lease payments, and so forth. Reducing debt helps: every reduced credit card balance or paid-off loan frees up more cash. Selling things helps – a car, a boat, a house, collectibles. Whatever money they generate for you can be assigned to your retirement savings effort.

Consistency is more important than yield. When you get a late start on retirement saving, you naturally want solid returns on your investments every year – yet you shouldn't become fixated on the return alone. A dogged pursuit of double-digit returns may expose you to considerable market risk (and the potential for big losses in a downturn). Diversification is always important, increasingly so when you can't afford to lose a big portion of what you have saved. So is tax efficiency. You will also want to watch account fees.

If you start saving for retirement at 50, your retirement savings will likely double (at least) by age 65 thanks to consistent inflows of new money, decent yields and compounding.⁴

What if you amass a big nest egg & still face a shortfall? Maybe you can reduce expenses in retirement by moving to another city or state (or even another country). Maybe you can broaden your skill set and make yourself employable in another way (which also might help you before you reach traditional retirement age if you find yourself in a declining industry).

If you haven't begun to save for retirement by your mid-40s, you have probably heard a few warnings and wake-up calls. Unless you are independently wealthy or anticipate being so someday, the truth of the matter is...

If you haven't started saving for retirement, you need to do something to save your retirement.

That may sound harsh or scary, but without a nest egg, your vision of a comfortable future is in jeopardy. You can't retire on hope and you don't want to rely on Social Security, relatives or social services agencies for your well-being when you are elderly.

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Citations.

1 - money.cnn.com/2012/08/15/pf/expert/late-start-retirement.moneymag/ [8/15/13]

2 - [irs.gov/uac/IRS-Announces-2014-Pension-Plan-Limitations;-Taxpayers-May-Contribute-up-to-\\$17,500-to-their-401%28k%29-plans-in-2014](http://irs.gov/uac/IRS-Announces-2014-Pension-Plan-Limitations;-Taxpayers-May-Contribute-up-to-$17,500-to-their-401%28k%29-plans-in-2014) [11/4/13]

3 - forbes.com/sites/ashleaebeling/2013/11/01/retirement-savings-for-the-self-employed/ [11/1/13]

4 - forbes.com/sites/mitchelltuchman/2013/11/21/financial-planning-for-late-starters-in-five-steps/ [11/21/13]