AVOID THE RETIREMENT PLANNING CRISIS

SEVEN TRICKS FOR BOOSTING YOUR SAVINGS

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NERVOUS ABOUT YOUR RETIREMENT PLANNING?
YOU'RE NOT ALONE.
AMERICANS' RETIREMENT PLANNING IS IN A CRISIS.

The crux of the problem is simple: Most people are not saving enough. Barely half, 50.5%, of U.S. households' own retirement savings accounts, according to the Federal Reserve's latest data. And that's down from 52.1% in 2016.

People fear they are in retirement saving trouble. A scary 63% of Americans confessed that their retirement savings were not on track to hit the amount they would need — and that was in 2019, before the coronavirus pandemic.

No mystery why they're jittery. Even among people who do have retirement savings, the median value of their balances is just $65,000, says the Fed.

Retirement Planning: How Much Does the Average Person Have When They Retire?

People who are in the homestretch for saving toward retirement — adults who are age 56 to 64 — **have a relatively paltry median nest egg of $120,000**, according to PwC, the accounting and professional services giant.

That amount of savings will generate less than $1,000 of monthly income, says PwC. And that includes cannibalizing the principal. Even then, it's only enough money to generate $1,000 per month for 15 years.

Social Security Is Not Enough

Then — *poof!* — the whole balance is gone.

That's not very long at a time when retirement health care costs are soaring. And it's not very long considering how long people may be retired. U.S. life expectancy at birth is 77.8 years, says the Centers for Disease Control and Prevention. And if you make it to age 65, you can expect to survive another 19.1 years.

Great, huh? You can expect to outlive your money by more than four years. Of course, if the U.S. Treasury doesn't go bust before then, you can also count on **Social Security benefits**.

Right now, those average $1,544 per month. That totals about $18,500 per year. Even doubling that meager amount if you've got a spouse, can you live on the not-so-regal sum of $37,056 in your 70s, 80s and 90s?

Coronavirus Pandemic Set Back Americans' Retirement Planning

A big part of the retirement planning problem has been the crushing financial impact of the coronavirus pandemic.

Eighty percent of Americans fear it will take them one to five years — or longer — to get their savings back on track, due to jolts like job loss or retirement withdrawals, according to Fidelity Investments.

A new IBD/TIPP poll shows that 33% of Americans feel less prepared for retirement due to the coronavirus pandemic's impact on the economy, jobs and the stock market.

Another problem is the slow disappearing act by traditional pension plans. In the early 1990s, 35% of private-sector workers were covered by a pension plan, according to the Bureau of Labor Statistics. By 2017, just 8% of private-sector workers had an old-fashioned pension plan.

So, year after year, the odds grow that you're on your own when it comes to paying the bills in retirement, except for those scanty Social Security benefits.

Who Are The IRA Millionaires?

Still, it's not impossible. Those lucky couples at your local marina, tennis club or golf club, looking tan and fit, laughing at jokes and sipping martinis while the sun makes its lazy way toward the horizon — they planned right!

Some did it by saving a million bucks or more in their 401(k) or IRA. For real.

An impressive 334,000 401(k) accounts in the custody of Fidelity bulged with balances of $1 million or more at the end of 2020. Another 288,000 IRA millionaires kept their accounts at Fidelity.

Million-Dollar Annuity

And how much income can you buy with $1 million if, for instance, you plow it into an annuity? A 60-year-old born in 1961 who buys a single life annuity that promises to pay him, or his beneficiaries for 20 years will rake in $4,318 per month, according to Schwab.com's annuity calculator. That's more than $51,800 a year for 20 years.

Add in, say, $37,000 from Social Security, and your total is $88,000. If you earned $118,000 before retiring, $88,000 is 75% of your preretirement income. Many financial advisors recommend aiming for 70% or more of your preretirement income.

7 Retirement Planning Steps To Reach Your Goals

So how do you boost your odds of being among those workers who save enough to afford the retirement they want?

Retirement experts point out seven key steps for building a big enough retirement nest egg:

- Start saving early.
- Save enough.

- Save persistently.
- Save in an age-appropriate way.
- Never give up because you think it's too late.
- Save enough to earn your maximum 401(k) company match.
- Consider saving in a Roth-style retirement account.

Start Retirement Planning Early

It's important to start early so you can let the power of compounding do the heavy lifting.

"The longer your runway, the less stressful saving can be," said John Boroff, director of retirement and college leadership at Fidelity. "Starting early means you can save a reasonable rate each year."

Suppose you start saving for retirement at age 25 after beginning your first adult job. Let's say your yearly pay is $45,000, and you save 10%. You average 1% annual pay raises. Your retirement savings account grows 7% annually until retirement, which you plan to do at age 68.

By then, your IRA, which has no company match of course, will have a balance of $1.2 million, according to the Bankrate.com retirement calculator. Not bad.

If you delay the start of retirement savings just 10 years? That would cost you about half your nest egg. At 35, your annual pay will be nearly $49,600. Your age-68 balance will reach about $608,000.

How Much Money Should You Have In Your Savings Account When You Retire?

To most experts, saving enough means socking away 15% of your annual pay. "It's not as tough as it may sound," said Judith Ward, a senior financial planner for T. Rowe Price. "Remember, in your 401(k) plan, you probably get a company match."

And in a traditional 401(k) account or IRA, you get an upfront tax deduction. That means the contribution does not count as part of your taxable income. If you're in, say, the 22% bracket, a maximum allowable $19,500 regular contribution to a 401(k) saves you $4,290 in federal tax alone.

A $6,000 maximum contribution to a traditional IRA would save you $1,320 in federal tax.

If you can't kick in 10% or 15% right away, try to make small increases in your annual contribution until you reach the necessary level.

Here's why. By retirement, you need about 11 times your final salary in your nest egg, Ward says. "Suppose you start work at age 25 and contribute 6% of your pay," Ward said. "If you increase your contribution by one percentage point a year until you are contributing 15% of your pay, by age 65 you'll have set aside 12 times your salary — more than your goal."

What if you don't start saving until age 35? "If you increase your savings rate by two percentage points a year, by age 65 you'll have saved 10 times your salary," Ward said.

Retirement Planning Advice: Avoid Taking Loans, Early Withdrawals

Saving persistently means resisting the temptation to take loans or early withdrawals, unless you are facing a dire financial emergency.

In today's economy, switching jobs has become more frequent. If you switch jobs, resist the temptation to withdraw your 401(k). Instead, roll it over into an IRA or into your new employer's 401(k). That way you won't have to pay income tax or penalties.

The main trouble with loans and early withdrawals is that they deplete your savings and neutralize the compound growth that is building up your balance. "It's a step backward," Ward said.

Who Should Invest 100% Of Retirement Savings In Stocks, Stock Funds?

Saving in an age-appropriate way means investing only in stocks and stock funds when you're young. The closer you get to retirement, the more you can put into bonds, Ward says. Bonds typically reduce your account's volatility.

When to shift toward bonds — and how much — depends on your circumstances, your stomach for short-term volatility and how soon you need cash from your account.

T. Rowe Price says an investor whose risk tolerance is moderate could start to add bonds to their portfolio in his or her 50s. Bonds could be anywhere from 10% to 35% of the portfolio. The bond weighting could rise to a range of 30% to 50% in his or her 60s, with up to 10% in cash.

Investors could put 40% to 60% into bonds in their 70s, and up to 20% in cash. Those ranges could be lower for someone who's less bothered by market volatility.

Retirement Planning: Use The Right Tools

There's one more trick to maximizing your retirement savings. You've got to use the right savings instruments.

First, that means saving in your 401(k). "If your 401(k) offers a company match" — and 84% of 401(k)s handled by Fidelity do offer a company contribution — "you should save at least enough in a 401(k) to get the maximum company match. Otherwise, you're leaving free money on the table," Boroff said.

Second, **consider using a Roth IRA** or 401(k). That's because after five years and age 59-1/2 you can withdraw Roth savings and earnings tax-free.

And in retirement, when you are older and wealthier, you may be in a higher tax bracket than you were early in your work career, especially if you continue working in retirement. "That tax benefit in retirement is worth more to you than the comparable tax benefit, the tax deduction, on a non-Roth retirement account when you're young," Ward said.

Make A Retirement Savings Plan, Stick To It

The final recommendation is to avoid tossing in the towel because you think it's too late.

Any amount you save is better than none, Ward says. "So, it's important to make a plan and stick to it," she said.,

Start with a budget. Assess how much you need to spend in retirement. Then calculate how much savings you need to generate that much income. Remember the time-tested rule of thumb: many financial advisors say you'll need 70% of your preretirement income once you retire.

And that includes whatever you'll receive from Social Security.

Can you save more if you need to? You'd probably be surprised, pleasantly, by what you can do. The average annual U.S. household savings rate since 1960 has been 7.9%. But when Americans feared they faced a financial Waterloo in 2020, they jacked their savings rate up to 15% on average — to build up emergency savings in case they lost income or their jobs, J.P. Morgan Asset Management says.

No. 1 Retirement Planning Task

"If you want to focus on one thing at a time, it should be your savings rate," Ward said. "If you're only saving 5% of your pay, it won't matter if you've got a great asset allocation. Chances are, you'll be short of money when you reach retirement. If there's one thing to fix first, it's the savings rate. Savings rate is the crux."

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