

Benchmark

Financial Group, LLC

Ten Tips for Retirement Savings

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10. Make a Plan for Retirement

Making a plan for retirement can be done on your own, but including a professional financial advisor is often worth the fee.

Saving for retirement can be a bit difficult to figure out at first. If you need to get a handle on what you need to do to create a large nest egg, you need to begin with a plan. The U.S. Department of Labor recommends that you start by determining your net worth -- the total value of your assets minus the value of your debts (things like the value of your house minus the value of what you still owe on your mortgage). You want this number to be positive, with your assets worth more than your debts. Don't be disconcerted if that's not the case. Even if you find your net worth is negative (as many people do), start there to figure out what you can do to make it positive.

First, determine what you'll need to contribute to reach your retirement goal. You want a nest egg that can annually deliver between 70 to 90 percent of your pretax, pre-retirement salary. How much will you need to contribute to reach that goal? More importantly, how will you ensure those contributions are made?

Next, you need to create a budget of your recurring expenses and include your savings contributions as a monthly expense. A budget will also clearly show you where your money's going and should also provide some insight into what debts should be dealt with first. Now that a plan's in place, you're going to need to change your mindset in order to stick to it.

9. Get is the Savings Mindset

Compound interest is a beautiful thing.

Saving up for years just so you can make 70 to 90 percent of your old salary annually when you retire sounds like a mind-boggling idea. How can you save that much while you're still living your life before retirement? Fortunately-, there's compound interest -- small amounts of money contributed to a retirement savings account like a 401(k) or Roth IRA that can grow by leaps and bounds over the course of a few decades. Still, you have to plant a seed to grow a tree, and when it comes to saving for retirement, it can be difficult to have the discipline necessary to pay now in order to benefit later. This is where a savings mindset comes in.

Look at the budget you prepared as part of your plan. Is a significant portion of your monthly income being sent off to credit card companies? Then you need to become an attack dog, bent on aggressively paying off your credit card debt. One of the great ironies of saving well is that it often entails doing some serious spending, at least at the outset.

You should designate an amount of your pretax income to contribute to your retirement savings on a monthly or bi-weekly basis and have it taken out of your paycheck, just like your taxes. It's easiest to save money when you don't have it in your hands; you're effectively taking the decision of whether to save that money out of your control.

Take on the outlook that the money you save for retirement doesn't exist, except for in the future. In other words, stay out of your savings account

8. Take advantage of retirement Plans

Traditional pension plans have all but disappeared among employment benefits packages. These days, saving for retirement is more on the shoulders of the employee.

It may seem like a no-brainer to take advantage of a program at work where your employer matches your retirement fund contributions, but not everyone sees it this way. In fact, about one-third of people who have a 401(k) plan available at work don't contribute. You should consider doing so, especially when employers offer contribution matching programs. Under these programs, not contributing is like turning down free money -- with compound interest.

There are a number of types of retirement savings account plans that employers can offer. Among the most popular are the 401(k) plan and the IRA (individual retirement account). Both have their advantages (see Tip 6) and disadvantages, and are widely available at most mid-sized to large companies.

Those who work at small businesses have options as well, as do the self-employed. Check with your employer, a financial consultant or the federal government about various available retirement savings accounts. You might also consider contributing to more than one account. Diversification is an essential ingredient to saving a nest egg.

7. Diversify, Diversify, Diversify

Diversifying your portfolio is the first, best protection of your nest egg

The saying, "Don't put all of your eggs in one basket," couldn't apply more to saving for retirement. Financial advisors, investment bankers and economists will all tell you that the more diverse a portfolio, the safer it is. A person heavily involved in just one type of investment is more vulnerable to financial problems if the markets associated with that investment tank.

The most common diversification suggestion is to divide a portfolio among stocks (which can offer big pay-offs but can also be high risk) and bonds (Treasury bills that offer little to no risk, but pay out less than stocks). Depending on who you talk to, you'll hear different percentages for splitting your portfolio between stocks and bonds. *One good rule of thumb* is to keep your bond percentage close to your age adjusting as life goes on; so if you're 30, about 30 percent of your portfolio should be in bonds. By the time you retire, 60 to 70 percent of your portfolio should be in bonds.

Don't stop with just stocks and bonds when diversifying your portfolio. Look for other ways to spread risk among your investments. Investing in largely unrelated sectors, like pharmaceuticals and telecommunications, is a good idea. You should also consider investing in economies throughout the world, rather than companies in just a handful of countries or a single region.

6. Consider a Roth IRA

A Roth IRA may be a better choice than a 401(k) in the long run.

There's long been a debate over which is preferable -- a Roth IRA, where savings are taxed when they are contributed, or a 401(k), where contributions aren't taxed until they're removed, or until the account matures.

Both make sense, and the 401(k) usually wins because enough interest has accrued over the life of that account to offset (and then some) the taxes levied against it upon maturity.

Since the recession of 2008-09, however, the assumption that a 401(k) will always pay off has come into question. Also, with the unparalleled U.S. government intervention in the markets and in banks, it's a pretty sure bet that younger workers who have just started to save for retirement will see much higher taxes to pay for that financial intervention by the time their 401(k)s mature.

These two factors make Roth IRAs worth considering. While paying taxes up front (and thus, having less to invest) might hurt now, it's worth crunching the numbers once more. You might find you'll lose less money in the long run.

5. Manage your Mortgage

Paying off your mortgage before retirement is like giving yourself a raise in income.

If you own a home, you've got both a huge debt and a very valuable asset. You can use a home to your advantage as both. If you're a young saver and own a home, it's a good idea to keep an eye on interest rates. If they begin to fall, consider refinancing your mortgage to a lower rate. Using any extra money that formerly went to the recurring monthly expense of your higher mortgage payment can then go towards your retirement savings contributions. It's a good idea to do the math first, however. Paying off mounting credit card debt will likely prove a better use for the extra income, since credit cards almost always have a higher rate than a home mortgage. If the opposite is true for you, refinancing your mortgage is definitely a good idea.

Avoid the temptation of taking out a second mortgage to consolidate your debt unless you trust your spending habits have been curtailed to fit a saving mentality and the cost of paying off your credit cards and other debt is more expensive than the additional mortgage payment each month.

Ultimately, the best thing you can do with your mortgage is to pay it off by the time retirement rolls around. The loss of a recurring monthly expense in the hundreds or thousands of dollars like a mortgage payment is an instant and substantial increase in income.

4. Cut Investment Fees

With a diversified portfolio, it's a good idea to avoid paying fees if possible -- they can really add up.

Cutting investment fees as much as possible is one sensible way of protecting a nest egg. What appear to be piddling amounts can wreak havoc over the life of a retirement account. For example, a one-time \$10,000 investment that earns 8 percent annually over 25 years will have more than \$16,000 (28 percent) less at maturity with a 1 percent annual fee levied against it than it would without the fee [source: NADART].

An investor will find it difficult to avoid all fees with a retirement account. It pays to look around though; some advisors charge fewer fees than others. For example, a good certified financial advisor will charge only an annual fee, usually 1 percent of the value of your portfolio. This means the advisor has ample incentive to build your wealth. Other advisors may charge transaction fees in addition to an annual fee. Familiarizing yourself with fees before signing on with an advisor can help you save money in the long run.

Be careful going overboard with ditching fees, however. Part of what you're paying for in an advisor is expertise.

3. Keep working

If you're happy in your career, don't be in a rush to leave. Extending your career can allow your portfolio to continue to grow.

This is likely to be the least popular tip, but it's the most realistic one. Increasingly, the idea of checking out of the work force at age 65 is going the way of being able to retire on Social Security checks. The good news is, we're generally staying healthier and more active longer, which means we also can work longer. It stinks, but it also gives your portfolio the chance to continue increasing in value for a few more years. Remember, compound interest really adds up over time.

A person entering retirement age has a few options available. One is to simply stay at the same workplace. You can also undertake a step-down method, either by decreasing the hours logged at work or by finding another, less demanding job. The downside to the step-down method is that it will likely result in less income. Having paid off your mortgage and other substantial recurring expenses and being willing to live a bit cheaply for a few years works well while you're gradually decreasing your work load. If you're willing to trade money for free time, it will pay off.

2. Budget on the back end

Figure out what you want to do during your retirement and put it in your budget.

You've cut corners and saved for the last couple decades. You've been good about not touching your nest egg. You diversified your portfolio well and weathered some economic downturns. Now that you've reached the end of your work life, you've got a substantial treasure chest that's all yours. Don't blow it.

Create a budget you can stick to just before you retire. After years of creating new budgets as your net worth grew more and more positive, you should be a pro at making budgets by now. This is not to say that you have to look forward to living frugally for the rest of your life, just wisely. What is it you've always envisioned yourself doing when you retire? If it's travel, then create a travel category as a monthly expense in your retirement budget. If it's spending time with your family, then create a "spoil the grandkids" category.

You can still live your retirement years the way you like; sticking to a budget will help keep you from outliving your nest egg.

1. Purchase long-term care insurance

It's a pretty depressing thought, sure, but we're all going to die one day. Unfortunately, none of us can say how and when we'll die. That's why it's a good idea to purchase **long-term care insurance**. This specialized form of insurance covers the cost of health care that extends long beyond a typical hospital stay.

On the surface, buying long-term care insurance doesn't seem to have much to do with saving for retirement. Remember, however, that smart saving also involves spending at times. With long-term care insurance, you're actually buying a policy that protects your retirement savings. Having to spend your nest egg on long-term care -- which can easily reach into the tens and even hundreds of thousands of dollars, depending on the quality and length of the care -- is not what you've been saving up for throughout your career.