

10 Tips for Saving for Retirement

No matter your age, nearly everyone can benefit from these retirement savings tips.

1. Start now

It's a simple fact that the earlier you begin saving for retirement, the more time your money has to earn interest and grow. If you've put off saving until your 30s or later, make up for lost time now by stashing away 10 to 15 percent of your salary.

2. Plan your retirement needs

If you want to retire at 55 and travel the globe or work for as long as you can but stick close to home, how much money you need to retire is unique to you. Rather than relying on figures that suggest you'll need 80 percent of your preretirement income to live comfortably later in life, talk with your spouse and financial advisor to settle on an amount to save that's tailored to you.

3. Learn about and contribute to your employer's plan

If your employer offers a tax-sheltered plan, contribute at least enough to get the employer match. Your employer can provide you with a summary plan description, which recaps your plan and vesting eligibility, as well as an individual benefits statement.

4. Consider saving "on the side"

If you don't have access to an employer-based plan, contributing to a traditional or Roth IRA allows you to get similar tax benefits for your retirement savings. Even if you do contribute to an employer-based plan, an IRA can supplement those savings.

5. Make saving as easy as possible

Eliminate the need to move money from one account to another by setting a monthly savings goal and automating a deposit to that amount. By making savings routine, you are more likely to see your retirement nest egg grow. To help boost your regular savings, funnel any extra cash windfalls, such as from a bonus or inheritance, directly to your retirement savings.

6. Increase savings as you near retirement

Your income will likely rise with age and experience, so it makes sense to save more as you earn more. After age 50, you will also be eligible for catch-up contributions, which allow you to contribute beyond the set limit. For 401(k)s, you can contribute an extra \$6,000, while for IRAs you can contribute an extra \$1,000.

7. Take an appropriate amount of risk

Age and excess savings are a large determinant of how much risk you can take in your investment portfolio. We define risk in two ways: 1) a permanent loss of capital or 2) missing investment opportunities. Either scenario is undesirable. The closer you are to needing liquidity, the greater the probability that you will need to sell an investment when it is down, creating a permanent loss of capital out of a temporary fluctuation in the markets. But on the other hand, by taking an appropriate amount of risk, an investor with a long time horizon and/or excess liquidity is able to convert those same temporary fluctuations into profitable opportunities.

8. Inflation is destructive

The purchasing power of your money decreases with inflation. This means that you have to earn after tax returns that equal the inflation rate just to stay even over time. When you plan for your retirement, make sure that your future expenses reflect a realistic long-term inflation level. This will ensure that your retirement savings allow you to live the life you envisioned.

9. Be a savvy investor

It's important to be smart about not only the amount you save but also how you save. To help insulate against market swings, diversify your investments within sectors and across asset classes and geographic regions. The more intentional you are about where your assets are invested, the more secure you can feel about them.

10. Don't touch your savings until retirement

Dipping into your retirement savings is a last resort. In addition to harsh penalties, you lose principal, which in turn depletes interest earnings and tax benefits. Also, if you switch jobs, rollover your retirement account rather than "cashing out." Preserving your retirement savings may be difficult when funds are tight, but will benefit you when you truly need it most.

For more information please contact:

Jeffrey G. Wimbish
Managing Partner
Kensington Investment Counsel
5580 E. Second St., Suite 209
Long Beach, CA 90803
(562)983-6677