How To Save For Retirement

If you listen to the news, read newspapers or magazines, you see that everyone is telling you to save for retirement. You know you should. But it is so hard. Why is it so hard? The easy answer is because it is so far away. For many, thinking about saving up for an event that is 20, 30, or even 40 years in the future seems like a long time. And it is. Because of that distant future and our need for instant gratification, we put off saving for retirement until next year. Then the next year. Then the year after that. Next thing we know, we want to retire in 10 years. We decide to get serious. When we calculate how much we will need to save over 10 years, we nearly have a heart attack. In many cases, if you haven't saved anything up until this point, the amount you have to save per year is going to be much more than what you earn. You will become frustrated and simply wave the white flag and give up.

I am here to get you to save NOW. Not tomorrow or next week or next month. NOW. And here is how we will go about it. It is a simple three step process. There are some variables in the process, because each person's situation is different.

Step1: Contribute to your employer's 401(k) plan up to the match. If your employer matches the first 3% of contributions you make into your 401(k), you should be contributing 3%. Why? Because if you contribute 3%, your employer will give you 3% as well! It is completely free money!! All you have to do to get that money is sign a form and save 3% of your money. That's it.

If you are not covered by a retirement plan at work, then you need to open a Roth IRA immediately. See the next step on this process.

Step 2: Open a Roth IRA and automatically transfer money each month into it. As of this writing, you can contribute $5,000 annually to a Roth IRA. (If you are 50 and older, the amount is $6,000.) Ideally, you should set the transfer up to invest $415 per month if you are under 50 and $500 per month if you are 50 and older. This will allow you to max out your Roth IRA.

Now, before we proceed, I realize that $415 and $500 per month is a lot of money. But you are going to need a lot of money in retirement. Let's look at an example. You make $35,000 per year and plan to retire at age 65. For this example, we will assume Social Security is no longer around. Experts say that you need to replace 80% of your income in retirement. Put another way, to live comfortably in retirement, you will need 80% of

your income. 80% of $35,000 is $28,000. You will need $28,000 per year to live. If you are retiring at 65, you will most likely live close to 20 more years. 20 years at $28,000 per year gets you to $560,000. You need to save $560,000 for retirement. Understand that this is a rough calculation for the sake of this example. In reality, you will need more money when inflation and other factors are taken into account. Therefore, it is imperative that you save as much as you possibly can for retirement.

However, let us say that in your current budget, $415 or $500 is too much. In this case, set up the transfer for as much as you can afford. And do not estimate low. Do not say, "I will start with $25 per month, and see, then I will increase it." You won't. You will forget or will put it off. If you can save $150, then save that much.

Step 3: You need to increase the amount you are saving for retirement by at least 1% each year. So, if you are contributing 3% to your 401(k) and are maxing out you Roth IRA, then you need to up your 401(k) to 4% next year. Then 5% the following year. Many firms allow this to be filled out on the application form when you sign up. Simply check the box that you want your contribution amount to increase 1% annually. If you have to do this manually, try to do it when you get a raise. That will be your reminder that you need to increase your contribution amount. If you really want to save, up you contribution limit by the amount of your annual raise. So, if you get a 3% raise, up your contributions by 3%. You won't miss the money. You never knew it was there in the first place. Of course, this assumes you are maxing out your Roth IRA. If not, then that takes priority.

Each year, you will need to increase your Roth IRA amount. Try to increase it each year by $10-20 per month. You should not miss that amount of money. It should be painless for you. Do this until you get to the point where you are maxing out your Roth, then add 1% per year to your 401(k).

To recap: First you contribute an amount up to the match in your 401(k). If you do not get a match or your do not get a 401(k) at work, open a Roth IRA and contribute the maximum to that.

If you do have a 401(k) at work and contribute up to the match, then you open a Roth IRA and contribute as much as you can, ideally the maximum.

Once you have your Roth IRA maxed out, you need to increase your 401(k) contributions by 1% per year, every year.

In five years, you will have a sizable nest egg for retirement. When you add in the magic of compound interest, your savings will begin to grow even faster. You can do this. It is not hard work. Just 15 minutes to fill out the paperwork and set everything else up on auto-pilot. Here's a final tip to help you to remember to up your

contributions each year: Pick when you want to raise it, either the beginning of the year or when you get a raise, and add it to your Outlook calendar or calendar in your SmartPhone as a reminder.

Good Luck!!