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Three Steps to Take if You're Behind in Retirement Savings

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Too many savers are "chasing" their retirement dreams in the wrong way.

A recent Allianz Life study found that nearly half of individuals between the ages of 45 and 65 surveyed consider themselves to be retirement chasers. These are defined as people who are saving for retirement--but have either fallen behind on where they should be, wish they could accumulate savings faster, or worry that if they don't increase savings soon it will be too late to have a comfortable retirement.

So, what action should you take if you are in the retirement-chasing crowd? Here are three moves I often suggest to clients.

Start using the 20/30/50 rule. I have found that most families who are behind on their retirement savings tend to use a save-after-expenses mentality when it comes to budgeting. That is, they put money into retirement savings after they have paid bills, spent on necessities and maybe even some luxuries. The problem with this is that without implementing a weekly or monthly savings plan with the money coming off the top, cash flow will undoubtedly always vaporize at the bottom.

The 20/30/50 rule will help chasers by having them take 20% off the top for savings (retirement and other savings) 30% for variable expenses and 50% for fixed expenses. What you'll need to determine initially is whether you truly have a budgeting issue or if you have too large of a fixed lifestyle for your current income.

Take advantage of all the free dollars you can get. Yes, you've heard it over and over that the employer match on a 401(k) plan is free money. But you would be surprised by how many of my clients initially don't do this. Sometimes, it's because people start by setting aside what they can afford. As their salary increases, however, they fail to up their

401(k) contributions to meet the match threshold. That additional 1% or 2% you add to get the full match will make a big difference over time, especially with compounding.

If your employer offers a health savings account, consider signing up for one this open-enrollment season. And some employers make contributions to HSAs. Again, free money! The maximum HSA contribution for 2019 is $3,500 for self-only coverage and $7,000 for family coverage. (There’s a catch-up contribution of $1,000 for people who will be 55 or older on Dec. 31, 2019.) You are saving pretax for qualified medical expenses, but the bonus is that money you don’t use carries over and grows over time. And it’s portable if you change employers. This is essentially another retirement-saving vehicle--one that could come in handy for future medical expenses.
(One note: HSAs work with high-deductible health plans. So be sure that this is the right plan for you given your--and any family members’--medical conditions and typical medical expenses.)

Rethink your risk tolerance. Chasers by nature are not investment risk takers. So, you need to balance your appetite for loss relative to the risk for gaining the necessary return, so you can retire on time. There are four options if you are behind on your retirement goals: Reduce the goal, extend the time frame, save more money or increase your rate of return. One option may be to consider buying equities that pay you a dividend.