Money Matters: Retirement savings strategy for each decade

By Rick Gross

Whether you can still count the days since you started your first job or you are nearing the end of your career, saving for retirement should be a top financial priority. You have the potential to spend decades in retirement, so it’s worth committing to saving today. Here are some fundamental strategies to think about at different ages as you seek to maximize your retirement savings:

In your 20s – get started

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You are in the early years of your working life, likely facing tradeoffs as you decide how to allocate your salary. You want to prioritize key financial goals such as buying a new home or paying off student loans, while also maintaining a healthy sum to enjoy life today and tomorrow. Although retirement seems a long way off, time is truly on your side if you begin saving for it now.

The earlier you can begin setting money aside for retirement, the more growth you can potentially achieve. An individual saving $200 per month from age 25 to age 65, earning an average return of 7 percent per year, would accumulate $512,663 in that time. By waiting until age 35 to begin a comparable savings plan, your savings would build to only $242,575. The sooner you start saving even a modest amount, the more likely you are to have enough money to last what could be decades in retirement.

In your 30s – keep up the momentum

You are still in the early stages of saving for retirement but it’s important to stay committed to it. If you haven’t started yet, don’t delay. Many people in this age group see their income increase due to experience or promotions, which can make it easier to allocate more to retirement. However, you could be presented with new competing goals like starting a family or saving for a child’s education.

Therefore, do what you can to stay on track with your retirement plan. Take full advantage of your workplace retirement plan, at least to the extent that you can earn a matching contribution from your employer. Many employers offer to match the equivalent of 3 percent or more of your income if you defer a comparable amount into a retirement plan. If you can, consider setting aside 10 percent or more of your income toward retirement.

In your 40s – maximize and diversify

At this stage in life, you hopefully have a solid retirement foundation and are starting to see glimpses of how you might like to spend your retirement. If you have any thoughts about trying to retire early (say, in your late 50s or early 60s), a commitment to significant retirement saving at this point is critical.

Take the time to assess your retirement savings, to ensure they are on track and well-diversified. Along with pre-tax contributions to your workplace savings plan, consider saving after-tax dollars in a tax-advantaged way. Investing in a Roth

IRA or, if available, a Roth 401(k) or similar employer's plan allows you to build savings that may qualify for tax-free withdrawals in retirement. This can provide you with important flexibility later in life as you begin to draw income from your savings.

In your 50s – align your saving with your goals

At this point, your children may be moving out of the house and income is reaching its peak, potentially allowing for more dollars to allocate to your retirement fund. Savings may be balanced with caring for an aging parent, or working to pay off your mortgage.

Now is the time to make your retirement dreams more specific. How do you want to spend your retirement days? Honestly answer that question, discuss with your spouse or significant other, and compare the cost of your planned activities with your savings. If there's a gap, calculate how much more you need. Once you reach age 50, you can take advantage of "catch-up" contribution rules. This allows you to invest an extra $1,000 per year in an IRA (up to $6,500 under current rules) and another $6,000 in a workplace savings plan (up to $24,000).

In your 60s and beyond – prepare to reach your goals

As long as you continue to work, you can still set aside money in retirement plans. Even if you've met your savings goal, you can continue to benefit from the tax advantages of workplace savings plans and IRAs. More important is to begin to adjust your portfolio mix. Your investment time horizon is beginning to narrow, and you want to protect your nest egg from potential market volatility.

Another consideration at this stage in life is deciding how to draw down your assets. For example, you may decide to use a portion of your savings to meet the initial years of expenses, while continuing to invest for your later years. A key part of this strategy is determining when to take Social Security. If you are still working, waiting as long as you can to first claim Social Security may be wise, as it will allow you to earn the highest monthly benefit.

Retirement saving is personal

Remember, there’s no one-size-fits-all strategy for retirement. The information provided here offers general guidelines for retirement savers at various ages. Your specific circumstances and spending needs will determine how much you have to save, and how much you’ll need to save for the retirement you want. No matter your age, consider discussing your goals and needs with a financial advisor who can help you develop a personalized retirement savings strategy.

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