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HOW AMERICANS CAN REVERSE THEIR BIGGEST RETIREMENT SAVINGS REGRET

A late start on retirement savings isn't a deal breaker. Here's how you make up for lost time.

By: Rebecca Lake - July 7, 2017

When it comes to retirement savings, you want no regrets, but 22 percent of Americans say they already regret not saving early enough, according to a recent Bankrate survey.

A late start can threaten dreams of a secure retirement but doesn't need to derail it entirely.

"Don't despair," says Carol Schleif, deputy chief investment officer for Abbot Downing in Minneapolis, Minnesota.

Even if you're 50 and just beginning to save, you theoretically have a 30-year investment horizon, she says, based on current life expectancies. The key is to make a plan and commit to following through.

If you're late to the retirement saving game, focus on the future – not past mistakes – to turn it around.

Contribute more. When time is of the essence, making catch-up contributions to your retirement accounts is a no-brainer.

"The catch-up contribution rules for individual retirement accounts, 401(k)s, 403(b)s and similar accounts can be a fantastic way for those age 50 and older to accelerate the pace of their retirement savings," says Neel Shah, a financial advisor at Beacon Wealth Solutions in Monroe Township, New Jersey.

In 2017, people 50 and older can contribute an additional $6,000 to a 401(k) or an extra $1,000 to an IRA. Besides a higher savings rate, catch-up contributions also offer tax advantages for late savers.

Shah says the effect of the tax-deductible contributions, as well as the tax deferral on investment growth, produces "an additional rate of return equivalent to your tax rate, which you wouldn't have ordinarily received on those funds."

If you're unable to max out multiple retirement accounts, start with your employer's plan first, says Kaleb McCarty, founder and CEO of Elite Wealth Advisors in Sarasota, Florida.

Because of the higher contribution limits, a 401(k) takes priority over an IRA, he says. Many employers also offer matching contributions, "so your 401(k) is definitely the account you want to favor."

Downsize spending. Saving is one way to build a nest egg. Trimming expenses is the other, and cutting spending sharply could alter the retirement outcome for late savers.

Consider moving into a smaller home to reduce housing expenses, if that's an option. Review your budget for unnecessary spending. The more you cut, the more money you can funnel into retirement accounts.

Schleif says if you're jumping on the retirement bandwagon late, make paying down debt a priority. She says it's never too late to learn to live within – or ideally, below – your means.

As you reduce current spending, think about what your budget may look like in retirement. Health care, for example, may be more expensive as you swap an employer's health insurance plan for Medicare.

A health savings account can help you plan for those costs from now. You can open an HSA if you're enrolled in a high-deductible health plan. The money saved in an HSA is tax-deductible, and withdrawals are tax-free when used for health care expenses.

Beginning at age 65, you can withdraw HSA funds for any purpose without a penalty. Ordinary income tax still applies, but that's additional money you could use for retirement if you stay healthy.

Manage risk. If you're behind on saving, you may be tempted to take bigger risks with your investments. That strategy can backfire.

"Don't let desperation turn into disappointment," advises Wayne Fisher, president of Fisher Financial Tax & Insurance Solutions in Redding, California.

The older you are, the less likely you are to recover from major portfolio losses, which are even more detrimental if you're already behind on saving.

Fisher says using principal-protected alternatives can help you realize gains without jeopardizing your savings. He recommends certificates of deposit, annuities and cash value life insurance for minimizing both volatility and investment fees.

Late bloomers should be mindful of how age influences their investment choices. Barry Kozak, a consultant with Chicago-based October Three Consulting, says that someone who begins saving in their 50s should still start with a strategy that includes riskier investments to yield a decent rate of return. As these savers grow older, they could transition into more conservative options.

Once you are retired and begin taking distributions, it's too late to hope for large returns. "The best strategy is to maintain the remaining principal to keep up with inflation and not suffer large losses," Kozak says.

In the meantime, late starters should keep risk and returns in perspective. Generally, stocks tend to outperform fixed-income investments, such as bonds, but are more susceptible to volatility. Joe Heider, president of Cirrus Wealth Management in Cleveland, says late savers should know how much equity exposure they're willing to accept to attain their retirement goals.

"When the market declines, someone who's risk-averse may abandon their strategy altogether," Heider says, and unless you're comfortable with your asset allocation, taking risks with your investments is less likely to pay off.

If you're concerned about dialing up risk, McCarty suggests increasing your savings rate so that you don't have to invest as aggressively.

Be flexible. As retirement nears, be prepared to tweak your plans.

Your financial future is not all or nothing, Schleif says. "If you've delayed saving, get your head wrapped around the fact that you may need to work longer," she says, adding that your glide path out of the workforce could include working part-time so you can continue saving for retirement.

Phasing in retirement with part-time work may also enable you to postpone Social Security. Taking it later can result in a higher benefit amount, which you will need if your retirement accounts are underfunded. If you must take Social Security early, however, remember that your benefit amount may be reduced if you're working while drawing benefits.

As for hitting the inevitable speed bumps, keep your eye on the prize and stick to your plan.

"While you may not have the desired amount of savings today, it's extremely empowering and motivating to know that if you stay on track, you increase your chances of success," Shah says.

Neel Shah is a financial advisor at Beacon Wealth Solutions in Monroe Township, NJ. He is focused on helping individuals, families and business owners protect their legacy for current and future generations. Neel provides clients with relevant, actionable advice for estate planning and asset protection strategies so that their actions don't jeopardize their family's wealth.

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