Late to Retirement Planning? Four Ways to Help Catch Up

If you're afraid you're behind in saving for retirement, it's important to act. You can do something. Here are four ways to help get back on track.

The United States is currently in a retirement savings crisis. While not every American at retirement age is in dire straits, many find themselves with insufficient savings to support their desired lifestyle or handle unanticipated costs. In fact, 1 in 5 Americans ages 50-plus have no retirement savings, and more than half are worried they will not have enough money to support themselves in retirement, according to an AARP survey.

The U.S. government has made efforts to address this issue by reforming regulations to encourage companies to offer more robust retirement plan options and incentivize savers. Although these measures have been modestly successful, some Americans still face challenges saving for their financial future.

It's important for everyone to understand that the responsibility ultimately falls on them to ensure they have a financial savings plan in place and are making progress toward it. Some Americans struggle with adequate savings for a variety of reasons, such as low wages limiting sufficient cash flow or emergencies depleting their emergency fund. Additionally, individuals who experience divorce later in life (aka gray divorce) may also be left with depleted financial resources.

Regardless of the reason, it's always important to try and plan for retirement as soon as possible, even if starting late. By taking the right actions, you can make a difference in your future. Here are four ways to help get started planning for retirement later in life.

1. Take stock of your current and future financial resources

The first step is to inventory your current retirement accounts and savings. If you were automatically enrolled in a workplace retirement plan, locate statements or records of those accounts. If you've changed jobs in the past, it's not uncommon to have investment balances spread across multiple institutions. Many retirement plans will allow incoming rollovers, so with some effort these balances can be combined into a single account, making tracking your savings much easier. It's always important as well to evaluate the fees and investment options for your current retirement account. If your plan is costly and offers poor investment options, you may benefit from consolidating old accounts elsewhere, such as in an individual retirement account (IRA).

Several apps are available that can help you link and view all your accounts in one place. While your bank might offer this functionality, you can also consider options like Quicken Simplifi or YNAB. Personally, I use Simplifi, which is similar to the now-defunct Mint. It's excellent for creating custom spending categories, as well as tracking assets, liabilities and spending. In addition to investments, compile an inventory of your cash savings and any other accounts that may ultimately fund your retirement.

Thinking ahead: Will you be receiving any future income from sources like Social Security, a pension or an inheritance? These should be factored into your retirement planning. Social Security benefits depend on your earnings history and require a certain number of credits to qualify. It's prudent to review your recorded Social Security earnings to make sure they are being calculated correctly. If you have the ability to increase your earnings in the future, this will also slowly improve your future expected Social Security income, as it is based on your highest-earning years. If you have a private pension from an employer, that should be factored in as well. Be aware that certain pension programs (such as teachers' pensions) may reduce your expected Social Security payments.

2. Determine a reasonable saving plan (even if you can't implement it right away)

If you're not currently saving for retirement, the next step is to review your budget and determine if there is room to start making contributions. Perhaps you have some debt that needs to be paid down first, or you have some expenses that can't be reduced immediately. The goal should be to start contributing 1% of your income to your retirement savings and then increase that amount over time. A modest goal would be to increase your savings rate by 1 percentage point at the end of each calendar year, which may coincide with annual raises you receive.

Ideally, a good time to increase your savings rate (or deferral to a retirement plan) is immediately when you receive a pay raise. This way, it feels like the increase in savings is coming from your raise rather than your current paycheck. While this may seem like a slow start, simply getting started and staying on the path can pay off in the long run. If you get in the habit of frequently adjusting your savings, it will become too easy to reduce your savings rate when it feels uncomfortable. It’s helpful when your savings are on autopilot and you don’t think about it on a daily basis.

3. Review your expenses

If you have specific retirement goals and don’t want to compromise to achieve them, there are typically two major factors you can influence to help get you there: your expenses and the rate of growth of your portfolio.

Many people used the COVID pandemic as an opportunity to review and adjust their spending habits. Depending on your financial resources, projected assets at retirement (including other income sources) and anticipated spending needs, you might need to revise your budget. A financial adviser can help you create a retirement forecast, or you can use basic calculators available on your 401(k) plan’s website. If your forecasted success rate is good but not high enough that you aren’t worried about running out of money in retirement, you might consider adjusting your discretionary expenses slightly to add a little bit more to your savings each month.

If you are facing a significant gap in your forecasted financial resources and your future needs, it may be time to consider lifestyle changes. We have all faced a lot of challenges in the last several years, with inflation impacting essential needs like shelter, vehicles and food. Everyone can be creative with how they approach necessary changes to their lifestyle. If your job is remote, you may consider relocating to a lower-cost area where you could save a significant amount on rent or a mortgage. Additionally, if you live in a state that is particularly vulnerable to increases in homeowners insurance rates, such as California and Florida, you may need to think long-term about your true home costs.

If you have flexibility in your discretionary spending, such as eating out versus cooking at home or shopping habits— focus on these areas to make adjustments. The sooner you increase your savings, the more you can benefit from compound interest over time.

4. Adjust your asset allocation appropriately

An investor's asset allocation, or mix of asset types, is usually guided by their risk tolerance and time horizon. If you need to make up for lost time, adjusting your asset allocation can be a useful strategy. For instance, if you've traditionally been a conservative investor, you might need to adopt a more moderate or balanced approach. Conversely, if you're comfortable with an equal mix of stocks and bonds, you may need to shift toward a heavier allocation in stocks or growth assets. If you are unable to increase your savings or simply don't have a lot of time to catch up, a more aggressive approach may be needed. However, a more aggressive asset allocation comes with additional risk.

A financial adviser can help you understand your options and determine what might be appropriate for your individual situation. There are always available trade-offs to consider – a trusted professional can help you weigh what is most important to you, whether it's prioritizing the lifestyle in retirement you desire or gaining some additional peace of mind by trying to reduce vulnerability to market fluctuations.

NYSUT NOTE: Still not sure where to start? NYSUT Member Benefits endorses a Financial Counseling Program that provides both customized and objective financial planning advice. For only $260 a year, you can get insight on retirement planning, debt management, and creating comprehensive budgets. Even better, your spouse or domestic partner also receives access to these programs when you enroll.

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