Retirement Planning at Every Age

Whether retirement is right around the corner or decades away, being strategic about investing and saving for that time can help set you up for a comfortable lifestyle once you stop working. Unfortunately, research finds that many Americans underestimate their life expectancy and, therefore, don't save enough for retirement. While the current life expectancy is 77 years, many Americans will live much longer and you want to be sure you have the financial means to do so. Here are key factors to consider as you invest in your retirement in each decade of your career and aim to maximize your savings and retire comfortably.

While retirement might seem too far away to concern you at this point, this is the time you can be most aggressive with your investments. Market ups and downs won't affect your savings as much because you won't be cashing out your funds for decades, so you can tolerate some volatility. A target date fund is an option that automatically chooses a mix of investments, with risk calculated based on your expected retirement date.

Another benefit of starting your retirement savings as early as possible is compound interest. When you earn interest on your investments, those earnings begin earning interest, and you can save a significantly greater amount over time. So even investing a small percentage of your income can ultimately yield surprisingly high earnings in the long run.

You also might not yet have financial obligations that come with marriage and a family in your 20s, which could free up some income to set aside for retirement. If your employer offers a matching program, it's in your best interest to contribute the minimum amount to obtain the match. If you can max out your contribution, however, you'll be putting yourself ahead of the game before more of life's major expenses cause you to pull back a bit.

If your employer doesn't offer a retirement plan, that doesn't mean you can't start saving. Look into an Individual Retirement Account (IRA) to begin investing for your future.

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Charting Your Journey

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In your 30s

Two important warnings as you enter your 30s: if you haven't yet started contributing to a retirement account, start now. Waiting any longer could put you at risk of not saving enough for retirement or having to contribute a larger percentage of your income later on in order to save enough. If you have been contributing to a retirement account, don't cash out unless you're in a situation where there are absolutely no other options. You will end up paying taxes and a withdrawal penalty, and also depleting the savings you worked hard to secure in your 20s. Even if you're given the option to withdraw, possibly because you're changing jobs or need to take a hardship withdrawal, it's in your best financial interest to keep that money where it is.

In terms of investment choices, you still have plenty of time to recover from market fluctuations, so you can still tolerate a bit of risk and aggression in your investments. Beyond this point, as you get closer to retirement age, you'll want to get a little more conservative as you'll have less time to bounce back from market lows.

In your 40s

You may now be earning a higher salary, and you'll likely have many financial demands to balance. To stay on track for securing a comfortable retirement, try to resist the temptation to spend more just because you have the means. Staying conservative in some areas of spending will allow you to continue steadily contributing to—and earning interest on—your retirement savings. In fact, as your income increases, it's wise to look into increasing your retirement savings contributions rather than spending more elsewhere.

This is a good time to plug your numbers into a retirement planning calculator to estimate how you'll need to adjust your investing and saving strategy to meet your goals. Check with your retirement plan provider to see if they have a calculator they recommend using.

If you have kids, you also might feel conflicted between saving for college for your children and saving for your retirement. Experts recommend putting yourself first. While that might be tough for a devoted parent to do, there are many financial aid options for college. If you want to retire and still live a comfortable lifestyle, you are the one who needs to fund that. Of course, it's ideal if you can afford to contribute to both. But if you can only afford to focus on one, focus on your 401(k), 403(b), IRA, or other retirement plan.

In your 50s and 60s

As you near retirement age, you might see a gap between your desired savings and what you've actually saved over time. Now is the time to catch up, if possible. Once you turn 50, retirement plan contribution limits increase an additional $7500 per year for your 401(k) or $1000 per year for your IRA. You'll also want to be more conservative in your investments, as market fluctuations will have a greater effect on your retirement account the closer you are to accessing your funds.

You can begin taking withdrawals from your IRA and from your 401(k) at age 59.5 without incurring penalties. Don't count on accessing your retirement accounts prior to reaching those ages.

Now is the time to focus on paying off debts and setting aside a fund for medical emergencies, if you don't already have one. The last thing you want when you've spent your whole career preparing for retirement, is for your savings to be wiped out by one unexpected medical event or to have to allocate a large chunk of it for debt repayment. Medicare doesn't start until age 65, so it's wise to consider the cost of medical insurance in your retirement plan before that age.

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While you can start collecting Social Security at age 62, you won't receive full benefits unless you wait until you reach your full retirement age (FRA). For each year you delay collecting Social Security past your FRA up to age 70, you'll receive an 8% increase, so it's beneficial to hold off. It's also worth noting that funding for Social Security (and Medicare) is set to run out in the next decade. So, if your retirement date is beyond 2033, your benefits will not be determined until the federal government decides how to fund those programs.

The age at which you are required to start taking required minimum distributions (RMDs) from your retirement fund used to be 72. As of 2023, that age increased to 73. In 2033, the RMD age will increase to 75. One exception is if you're still working for an employer at that age; in that case, you may be able to delay withdrawals.

Even if you've set up a retirement plan and made regular contributions, establishing a budget for living on a fixed income after you stop working can be a challenge. Please feel free to reach out to our office with any questions about investing or saving, or for help strategically using your savings during your retirement.

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