Retirement Savings Ideas

Parting with your hard-earned cash is never easy, especially when you may not see it again for decades.

Nevertheless, saving for retirement is the best way to make sure that the “you” of the future is not disappointed by the “you” of today!

Here are some simple strategies for making smart retirement savings decisions:

- **Save 10% - 15% of your income in tax-advantaged accounts.** The earlier you start saving, the more time your investments will have to grow and benefit from compounding. Compounding investment gains over decades is a powerful tool for creating wealth. So saving in a tax advantaged IRA or 401(k) account offers huge advantages.

- **Make it automatic.** Your retirement savings should be deducted from your paycheck automatically. Having to send in checks monthly increases the chances that you will forget or spend the money elsewhere.

- **Maximize any employer matching.** If your employer offers a 401(k) plan with matching, be sure to max out the matched portion of your contribution. For example, some employers contribute 50 cents for every dollar saved up to 6% of your income. The matched portion is absolutely free money.

- **Start an IRA.** Even if you have access to a 401(k), there’s no reason why you can’t have *both* an IRA and 401(k). If your employer does not offer a 401(k) plan, an IRA is your best bet for a retirement plan.

- **Spend wisely, and invest the savings.** For instance, a major cause of wasted money is purchasing new rather than used cars. Save 40% by buying a 2-3 year old car instead and apply the savings to retirement or to an asset that usually will *make* money, like a home.

- **Pay off expensive debt first.** Many of us have debt from student loans, mortgages, and credit cards. Pay off the highest interest rate debts first, and then progress to the others. Staying out of credit card debt in particular is a great way to find extra cash for saving.

- **Save windfalls.** Tax rebates, yearly bonuses, and any other windfalls should be saved not spent. If you’re getting more than a few thousand dollars, consider dollar cost averaging the money into investment over a number of months.

- **Trading individual stocks is a hobby, not a retirement strategy.** Most savings should be in no load, low-fee or index-tracking mutual funds. Be skeptical of stock market gurus – nobody can tell the future, and the advice offered by many books or expensive newsletters actually offers no better performance than common stock indexes. When saving for retirement, long-term investing and the compound interest it offers is a tested strategy. Trying to time the market by picking individual stocks is gambling.

- **Consider a checkup with a fee-based certified financial planner.** For under $250, you can get a personal consultation to make sure you are on the right path for retirement and that your whole financial house is in order – from insurance to estate planning.

- **Reevaluate asset allocation every 5 - 10 years.** As you get older, you may want to move the bulk of your investment portfolio into more conservative investments. As your income grows, save more money per month.

- **Self Employed?** Explore simplified Employee Pension (SEP) programs, which offer similar benefits to 401(k) programs.

These ideas are just a start. Be creative – there are probably other ideas that are appropriate for your financial situation.

College Foundation of North Carolina

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