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Retirement planning for late starters

Under-savers can take steps now to improve their prospects

By KRISTEN D'ANDREA

Several years ago, Lawrence Sprung received a midweek call from a prospective client looking to discuss his retirement readiness. Sprung, president of Mitlin Financial Inc. in Hauppauge, said he was booked but could meet the following week.

That wasn't going to work, the caller said – he was retiring that Friday.

Recent studies suggest Sprung's caller was not in the minority.

The average American family is not financially prepared for retirement, according to the National Retirement Risk Index, a periodic study based on the Federal Reserve's annual Survey of Consumer Finances.

The most recent NRRI shows that just over half of all current working-age households, which includes most baby boomers between 51 and 65 years of age, are currently assessed as unable to maintain their preretirement standard of living, according to a 2014 report from The Center for Retirement Research at Boston College. While today's NRRI is 52 percent, in 1983, it was 31 percent.

AARP estimates that three-quarters of baby boomers have saved less than $30,000 for their retirement years. The Boston College report is more bleak, stating 55 percent of current workers don't have any employment-based savings.

Individuals who have been contributing to a Fidelity 401K retirement savings account for 10 years should have an approximate balance of $270,000, according to AARP. Yet, for a 65-year-old retired couple, that will barely cover their anticipated $220,000 healthcare costs.

People wouldn't take a trip without mapping their route, yet so many seem to neglect the first step in retirement planning: making a financial plan, said Charles Massimo, CEO of CJM Wealth Management in Deer Park. Rather than concentrating on which investments can be used to get someone to retirement, the focus should be on putting a financial plan together to reach a retirement goal, Sprung agreed.

And not everyone's retirement looks the same, said Steve Brett, president of Marcum Financial Services in Melville.

"One person might want to travel around the world, while someone else wants to sit on a beach and read a book," he said. In both of those situations, "the resources and money needed to save are very different."

Although the NRRI points to those who may be behind in saving for retirement, others may have done a good job of putting money away, but ultimately have no idea how much they will need to accumulate, the withdrawal rate of the lump sum needed to fulfill the lifestyle they plan and whether or not they have a cushion built in, Sprung said.

Initially, clients may be uncomfortable with the idea of paying an adviser to put a financial plan together, Sprung said.

"It's unchartered territory," he said. "But once we go through the process, they are refreshed. They have a good idea of what they need to do and the framework for making financial decisions going forward."

Another benefit to individuals creating a personalized financial plan: "They don't have to be hung up on looking at the average return of the Dow or S&P," Sprung said, noting clients become more concerned that their individual rate of return is in line with their goals. "The level of benchmark is in tune to their individual plan and not the gyrations they're hearing about on CNBC," he said.

Making a plan to maximize Social Security benefits is also important, Brett said.

"Don't wait until you are ready to retire and start collecting," he said. If the right decisions are made – especially for married couples – benefits can potentially increase by approximately 32 percent, he said, noting the importance of meeting with an adviser with a Social Security-maximizing tool.

STEVE BRETT: With proper planning, Social Security benefits can be as much as one-third higher. *Photo by Bob Giglione*

"That can make a huge difference on your retirement savings," Brett said.

In addition to meeting with a financial adviser, there are a number of strategies available to those who fear they have not saved enough over the course of their career. Options include beginning to save more immediately, spending less in retirement, putting off retiring or working part-time to supplement their income once they retire, Brett said.

He recommends those nearing retirement begin by maximizing their contributions to a retirement plan. Most people contribute less than 7 to 10 percent of their salaries, he said, adding the maximum amount individuals can contribute in 2015 is $18,000 (those over 50 can contribute an additional $6,000). "If I was 55 and maxed out [my contributions] at $24,000 for 10 years, with a 6 percent return, I would add another $316,000 to my retirement savings by 65," Brett said, adding, "It's never too late."

Still, too many businesses have their employees' 401K plan funds invested in mutual funds rather than passive index funds, which are grossly overlooked and the most viable solution for building up retirement funds at low costs, according to Massimo.

"The S&P has returned 11 percent a year since 1972," he said. "I can assure you 99 percent of investors have not averaged 11 percent a year." Rather, people pay high fees for inconsistent performance, he said.

"That's why people are not retiring comfortably," he said.

If everything is equal, the person paying lesser fees will have a greater return, Massimo said.

"One of the biggest reasons those who invest in 401Ks are failing is because fees are too high," he said. "People go crazy about paying more for their cell phone, but it's right in front of them and they choose not to do anything about it."

In fact, the simplest step an individual can take to put away more money for retirement – other than committing to saving – is reducing the cost of investing, Massimo said.

"It's the one thing you are in complete control of," he said, noting employees with 401Ks should fight to get high-cost active funds out of their plans.