6 Retirement Planning Steps Late-Startes Must Make

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Andy W.

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Most Americans aren't saving enough for retirement - and worse, many are off to a late start. One estimate puts the ideal retirement savings for an individual at age 45 at $162,000 and calculates that, in reality, most Americans are about $100,000 short of that goal by the time they reach age 45.

Below are 6 steps late-starters should do to give their savings a necessary boost.

If you're 15 years away from retirement:

1) Take advantage of catch-up contributions

Starting at age 50, you're now legally allowed to start making annual catch-up contributions on top of the regular contribution limits to your qualifying retirement accounts. In 2016, individuals age 50 and over could contribute an extra:

- $6,000 on top of the $18,000 limit to 401K (other than a SIMPLE 401K), 403b, SARSEP, and governmental 457b plans
- $3,000 in catch-up contributions to SIMPLE IRA

or SIMPLE 401K plans; and
- $1,000 on top of the $5,500 limit to traditional or Roth IRAs.

Additionally, individuals with at least 15 years of employment can make additional contributions to their 403b plans on top of the regular $6,000 in catch-up contributions. For more details, review the IRS rules for 403b contribution limits.

2) Chase lower investment fees
When choosing funds for your 401K, you may think that there's little difference between a fund with an annual expense ratio of 0.16% and a fund with one of 0.25%. However, when you're 15 years away from retirement, those differences compound over time. A $30,000 investment would cost $48 per year on the first fund and $75 per year on the second fund.

By investing in the fund with the higher annual expense ratio, and assuming that both funds have an annual return of 7%, you would miss out on an extra $703.94 in retirement savings by the time you reach age 65. Not to mention on the additional gains on those moneys that you would have during your retirement years.

If you're 10 years away from retirement:

3) Consider cities where you can retire on just social security
It can be a humbling experience to have to tighten your belt after having worked so hard for many decades. If you're going to become part of the 62% of U.S. retirees that expect Social Security to be a major source of income during retirement, check out this recent article from the Huffington Post, "The 10 Best Places to Retire With Only a Social Security Check."

Thinking about your budget during your retirement years is a good idea so you can plan withdrawals from your retirement account, figure out your necessary contributions for the next decade, and figure out ways to rein in expenses.

4) Dial down your investment risk
Desperate times often call for desperate measures. However, playing part-time stock trader with your retirement funds or allocating more moneys to investment vehicles promising higher returns - and more risk - isn't a good idea. Remember only 20% to 25% of actively managed funds beat their benchmark.

Talk with your plan administrator about income investing, which focuses on picking financial vehicles that provide a steady stream of income. While you may think that bonds are your only option, there many other securities to choose from. For example, there are stocks that consistently pay dividends.

If you're 5 years away from retirement:

5) Accumulate delayed retirement credits

It's time to get the most accurate picture of your expected retirement benefit from the SSA. To do this, you can use the Social Security Detailed Calculator, which lets you estimate your retirement benefit by accessing your actual earnings record through a secure interface. If you find your monthly benefit check to be too low, one way to boost is delaying your SSA benefit past your full retirement age.

Depending on the year you were born, your full retirement age will fall somewhere between age 65 and 67. For every year you delay your retirement benefit past your full retirement age, you can get up to an 8% increase on your total annual benefit.

6) Delay required minimum distributions

Generally, holders of traditional and Roth 401K plans must start taking required minimum distributions (RMDs) once they reach age 70-1/2. At that point, you can no longer contribute to your 401K plan and delay applicable income taxes.

However, there is one way to delay RMDs. If you were to take a part-time job offering a retirement plan that allows you to rollover your old 401K plan, then you can continue to contribute to the new plan and delay your first RMD until April 1st of the year after you retire.

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