Americans struggle to sock away retirement savings

Jeff Reeves, Special to USA TODAY
1:32 p.m. EDT May 9, 2015

(Photo: Thinkstock)

Retirement planning is complicated for Americans of all age groups. In their early lives, many workers put off saving because they think retirement is eons away … then, in their 40s and 50s, these folks panic and race to catch up.

According to a 2014 survey from the Employee Benefit Research Institute, only 64% of Americans have reported saving any money at all for retirement to supplement anticipated Social Security benefits. Those with some savings typically don't have much. The EBRI survey found that roughly six of every 10 Americans have less than $25,000 in total retirement savings.

"Americans just don't save enough," says Charles Sizemore, chief investment officer of Sizemore Capital Management in Dallas. "The question, of course, is why?"

The obvious answer is that many Americans simply don't have the means. A recent survey from banking and personal finance portal Bankrate.com found that among people who don't have a penny invested in the stock market, 53% say that's because of a lack of money more than a lack of desire.

Sizemore says another reason Americans have such trouble with retirement planning is cultural, based on our behaviors and emotions.

"Life is pretty stable here, and we have basic safety nets in place. The countries with the highest savings rates tend to have little or no safety nets, and people are forced to fend for themselves in old age. So in a lot of ways, our success and stability have made us a little lax in our attitudes toward saving," Sizemore says.

Couple that with a lack of mandated savings, and you get an understandable problem.

"In many countries, 401(k)-style contributions are required by law the same way that Social Security [withholding] is here," Sizemore says. "To the average 22-year-old in their first college job, the priority is paying the rent. Retirement savings is not high on the priority list."

There is no shortage of other theories on why Americans are so far behind on savings. But experts agree the solution to this retirement shortfall is deceptively simple: Save early, and save often.

John Sweeney is executive vice president of retirement and investing strategies at retirement giant Fidelity Investments. He said a recent survey of 5,000 Americans showed the two big factors driving what Fidelity calls "retirement preparedness" were time and money. Other elements such as asset allocation or access to home equity made far less difference.

"Saving 1% over 30 years is good, but certainly not as impactful as saving 15%," Sweeney says. "And then saving 15% for 10 years is great, but not as impactful as saving for 30 or 40 years."

If socking away 15% of your income for decades sounds like an impossible task? Well, you're just thinking about it the wrong way.

As Sweeney puts it, "When people say, 'You know I really can't afford to save for retirement right now,' I say, 'What if your employer came to you and said you still have your job, but you now make 85% of what you used to make?' "

It's all about lifestyle and behavior and making tough choices such as eating out less, forgoing pricey vacations or driving your beat-up sedan a bit longer before taking on a new car payment.

Even if that means not getting everything we want and not keeping up with the Joneses.

"We'd all figure out how to do it, and we'd create a capacity within our lifestyle to save, first of all, but also have a spending rate that's living below our means," Sweeney says. "It really all starts with an effective budget plan."

The results speak for themselves if you manage to find the discipline to save early, save often and put your money to work in the stock market. Consider the following examples:

•You're 25 years old and save $10,000 each year for 10 years until you're 35 years old, then never save another penny for the rest of your life. You do, however, enjoy a 5% rate of return on your investments each year. By age 65, you'll finish with about $570,000.

•You don't save anything until age 40, then start contributing $10,000 annually to your retirement fund, giving you 25 uninterrupted years of contributions until your retirement age of 65. In this scenario, despite a much longer period of contribution, you would have only about $500,000 at a 5% annual return on your investments.

In other words, you can save less and finish with more if you simply get started early in life and harness the power of compounded investment returns.

"The power of that early contributor who lets their money compound over time is a really, really important message to get out to young savers," Sweeney says. "We see many examples of people who have $1 million in a 401(k) because they started early, they diligently contributed and they kept to it."

What if you're like the millions of Americans who have nothing saved and have only a few decades before reaching 65?

The good news is there are steps you can take to retire comfortably, but the bad news is that they involve a lifestyle change that may result in a budget much different than you had planned on.

The obvious way to save more is to spend less, Sweeney says, but one of the most important options is to be realistic about your retirement timeline.

In short, consider working later into your 60s or even early into your 70s to delay drawing down your savings and build up a nest egg you can be confident in.

"I'm contributing not only to my expenses, so I'm not tapping into my savings, (but also) I'm earning enough that I can actually contribute to my savings," Sweeney says. "The other side benefit of working longer is that you defer Social Security; every year you defer taking Social Security, it increases about 8%."

For instance, Americans who made about $60,000 a year would be entitled to roughly $1,200 in monthly Social Security benefits if they retired at 62. If they waited until 65, the monthly benefit would be in the ballpark of $1,500, and at a retirement age of 70 that benefit would be about $2,300.

If your plans require you to work longer, they also may require you to work differently — involving retraining or a career change, he says.

"Particularly people who are in physically demanding careers, they just may not be able to perform at the level they used to be able to perform at, so they have to think about, how do I transition into a second or even third career where I'm using other skills?" Sweeney says.

Investment adviser Charles Sizemore notes that it's important for older Americans to take advantage of the increased cap on tax-sheltered retirement instruments such as an IRA or 401(k). A typical IRA is limited to $5,500 annually in contributions, but for those age 50 or older, the ceiling is raised to $6,500. It's similar with 401(k) plans, where the limit is $18,000 for tax year 2015, but those age 50 or older can save up to $24,000.

In addition to supercharging your savings, you can sometimes "save a boatload on taxes" by reducing your taxable income via one of these tax-deferred investment instruments, Sizemore says.

http://www.usatoday.com/story/money/personalfinance/2015/05/09/ebri-retirement-401k/26466299/