Santa Barbara Independent WHO. WHAT. NOW.

# Mid-Life Financial Crisis

**What to Do if You Didn't Start Saving for Retirement Until Your 50s.**

By Kevin Bourke

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**Dear Kevin,**

**What about those of us who postponed saving for retirement until "later", and "later" came much quicker than we thought? Now I'm over 50, and I realize that I need much more for retirement than I had expected. How can I play catch up?**

**Betty from Manhattan**

Dear Betty,

Powerful question, and one that folks all across America are asking themselves. The baby boomer generation is moving into retirement at a rapid pace, and many of them find that they did not plan well. What to do?

A common mistake is to give up, say "it's too late for me" and take no steps to rectify the problem. Don't do that. Take responsibility. Take action. It is not too late to start saving, in fact many folks don't start until they reach their mid-40s or 50s. So you are not alone.

Start with budgeting. Are you following the basic advice to pay yourself first? Financial planners advise younger people to save and invest 10% of their pretax income. Might you be able to save and invest 20%?

Assuming that you are willing to take this crucial step and start setting aside a percentage of income, what do you do with that money?

Let's discuss your definition of risk. Savers are often afraid to invest their money in anything that fluctuates in value. In other words, they put their money in the bank, perhaps just leaving it in a savings account, or purchasing a CD. By doing this, they feel that they are taking "no risk."

Unfortunately, a much greater risk is looming than fluctuation of principal, and that is the risk of losing buying power to inflation and taxes. By leaving our retirement savings in low yielding investments, we lose a little buying power every year, and risk running out of money prematurely.

And that Betty, is the larger risk, running out of money later in life.

How do we address this problem? We must look for investments that have the potential to give us returns that beat inflation and taxes. So perhaps we invest in real estate, or we look at the stock market.

Over long periods of time, the stock market has returned about 10%. Compare that to the 3 or 4% we might earn at the bank.

Each individual has a different risk tolerance, and all investments are not suitable for everyone, but can you see the need to accept some fluctuation in principal in exchange for the probability of higher returns over time?

Even in your 50s, or maybe especially in your 50s, you need to generate higher returns. That does not mean taking bets on high-flying investments. It does mean building an investment portfolio that is broadly diversified to reduce risk.

The last item to address is tax deferral. A tax deferred investment will grow more quickly over time because it is not impacted by taxes each year. There are many methods to obtain tax deferral, through 401(k), IRA, SEP, SIMPLE plans, and so forth. The idea is to determine what makes sense for your particular situation. Are you self-employed? Does your employer offer a retirement plan? Investigate your options. Perhaps get help from a tax advisor or financial planner.

One special note, most retirement plans now allow a greater contribution by those over 50, called a “catch up.” For example, 401(k) plans allow a person over 50 to contribute a full $5,000 annually more than a person under the age of 50. Take advantage of this provision!

So Betty, don’t lose hope. There is still time to have a significant impact on your retirement savings. Start now, invest prudently for growth, and be tax-wise.