How To Catch Up On Your Retirement Savings

Scott A. T.: Broadcasting from One Dallas Tower, it's, "The Scott Allen Turner Show," ready to help you get out of debt, save more money, retire early, and become a financial rockstar. In the studio with me is, Producer Katie, who says she needs a haircut. On the show today I will be answering your questions about money, business, and life. If you have question you'd like answered on the show, visit goaskscott.com.

If you're behind on your retirement savings, there is no need to worry. There's several things you can do to catch up and still retire comfortably. A lot of people, they're scared that they'll never be able to retire. The media does a great job of scaring the pants off people, just like anytime a cloud shows up in the sky or a gust of wind more than 12 miles per hour hits the airport. They jump on the news and are like, "Oh, massive storms could be happening." Now whenever it comes to money and retirement, the majority of people will be able to retire, just like Riker the cat says, just a matter of when and how comfortably. We're going to look at some of the options available you seek, and enjoy your golden years.

First, I want to pose the questions to you, "What do you think retirement is? What is retirement?" In 1881, Otto von Bismarck, a little history lesson here, a little history lesson. Otto von Bismarck was the chancellor of Germany and he announced he was going to pay a pension to any non-working German over the age of 65. It sounds like a great idea, especially since hardly anyone lived to 65 in those days. He came up with this plan to counter pressure from a rival political party at the time, and to provide a better life for people in the country. Sounds very familiar, right? Political promises. Eight years later, Germany was the first country to introduce a retirement system which would provide for its citizens if they lived long enough. Up until that time, people worked until they died, and age 65 was selected based on the life expectancy of citizens at the time. That was 150 years, it never changed.

Retirement is a new concept. It's less than 150 years old. How we think of retirement has changed dramatically in that time. We live way beyond age 65. Hitting 90, not such a stretch anymore with modern medicine. A 150 years ago, if the average age people died was 90, well, Otto von Bismarck would have said, "All right, it's going to be age 90 instead." I set that stage up because when it comes to saving, a lot of people don't even start thinking about retirement until they're in their 40's. That's probably explaining why Satan's rates are so small up until then. You get out of school, you start your career, you get busy working, then you might get married, you might have kids, you get a house. Those are financially draining life events when you're in your 20's and 30's.

One of the questions you're going to ask yourself is, "How much money will I need?" Well, first you've got to add up everything you've got currently. Your tax deferred accounts, your 401k, your 4030B, 457, social security, pensions, any annuities you might have. Then, you need to figure out what your estimated expenses are going to be each year during retirement as well as any big ticket items you plan on purchasing, like an RV. Most likely at some point during retirement, you're going to need a new vehicle, a car. You might go on several vacations, healthcare costs, et cetera. You have to start thinking about those things. At this point it's a best guess. Until you're getting pretty close and a few years away from those ages, it's a best guess. The rule of thumb is, whatever you're spending now, probably going to spend 70 to 80% of that in retirement. Why is that number, where do they come up with that number?

Your housing is probably going to be paid off, so you won't have a mortgage, that's going to decrease that. You won't be working, so you're not going to be commuting, putting as many miles on the vehicle. Those couple of big things, and a few other small things gets you down to the 70 to 80% range, which it is why it is a very good idea to learn how to budget now, or at least track what you're spending now so you can figure out what your money is being spent on so you can be able to figure out that 70 to 80%. The difference between what you've got saved up, and what your expected expenses are, that's the gap that you've got to figure out. If there's a gap there so that you can play catch up. Once you know that difference, you can start making adjustments to your current spending patterns. Either increasing your income, planning on working longer, or decreasing some of your expenses.

The simplest way to catch up is to put as much money as you can from every paycheck into retirement accounts. Once you know the gap between what you have and what you need, that's your target that you aim for. Now, Fidelity has some general guidelines that they've published. These are back of the napkin, back of the envelope type numbers. You don't bet your retirement on these, but let's say you're age 50, you should have saved about 4 times your gross annual salary. If you're age 60, 6 times your gross annual salary, 40, 2 times your gross annual salary. Those are just rough estimates, but they give you something to talk about and give you a starting point to look at.

Now the question that comes, "Well how do we cover the gap?" If you got a gap from what you've saved, and what you think you're going to need, then you got to look at, how am I going to fill in that gap? The easiest one is, you work longer. That's just one option though. It doesn't mean you have to work longer. This gets back to what we started with, that arbitrary number of age 65 as retirement. That's just a number which was made up 150 years ago because that's how long people were going to live for. When you've got that in your mind, then you can work around that because, again, it's just a made up number that somebody made up.

Now the pro's and con's of working longer, the pro's is, you don't have to tap your retirement accounts as early. Those monies that you've put away in your 401k, your IRA's, it gives them more time to grow. You know, an extra 5 years to allow that money to grow and compound is huge. It's huge. On top of that, if you work an extra 5 years, you continue to save more in addition to what you've already saved. The longer you work, the more you get to sock away for later. It's an excellent 1-2 punch. You're reducing the stress internally that you feel with your mind and your body because you're not worrying about it as much, but you're also reducing the stress on your investments because you're not pulling out that money as early. They get to grow, untouched for that much longer.

The other benefit of working longer, your social security benefits, they are increased by a certain percentage each year if you do away your retirement beyond your full retirement age. It depends on when you're born, but it could be 5 1/2% up to 8% a year. The Social Security Administration, they have a chart, you can look at your date of birth, figure out how much greater your benefits are going to be if you delay collecting them. There are disadvantages of working longer. What? There are, there are. The big unknown is, if you're not age 65, how do you know if you're going to be able to work at age 65? Is your job going to still be there? Is your employer going to have you? It's going to be a lot harder to find a comparable job at the same income as you get older. Just because of age discrimination is one reason. Especially if you lose your job in your 60's.

If you have a partner, are you going to be required to take care of them if they get sick? That's going to prevent you from working. If you become a caretaker full time, work is going to be much more challenging. Are you going to be physically able to do the job? Our bodies are going to break down, you got a bum knee, a bum hip, a bad back. It's going to be hard to work 40 hours a week whether you're sitting or standing. It could be hard to sit down depending on what your job requirements are. Lastly, what if you just change your mind? You get to age 65 and said, "Well I'm tired of this, I don't want to work anymore." If you thought you were going to work until age 70, and you decide to quit at age 65, then that's a big factor on how much money you're going to have. You might be intending to do it, but then you change your mind later on.

Now, when should you take social security? If you don't have to touch your social security at age 62, let them be. Let them be. As I mentioned, each year your defer collecting, those benefits compound up to age 70. Age 70, depending on what your age is now, you could be collecting up to 132% of the benefits than if you started pulling them out at age 62. There's a significant upside to not taking social security. To do that, you either have to be willing to work until age 70, or live off your other earnings, your other investments, and start tapping those investments early when you leave your job. If you start drawing those down in a down market, it's going to eat up your savings faster. There are trade-offs you got to consider.

Some people say, "Maybe I should start taking my social security early at age 62, and invest it because I'll get a better return." Well, it sounds like a great idea, but by leaving your money to grow in the social security system, you will actually get a better return. If you're a baby boomer born in 1960, you get a guaranteed rate of return of 8% a year if you leave your money in until age 70. There aren't many investments that you give you a guaranteed 8% of return for 3 years straight, or 4 years straight, or 5 years straight. In fact, there are none. It's better to leave it in there and let it grow. There's a downside to that though. If you die, the government keeps all your money. You start pulling out at 62, put into a whatever, savings account, investment account, that's money that you can leave to your heirs or money that you can spend.

If you don't touch it and leave it in there and you get hit by an asteroid at age 69, poof, that money is going to government for highways or band uniforms. Whatever they want to spend it on. Not to your kids, not to your significant other.

Those are a few things to think about. We'll wrap this up tomorrow, we're running a little longer than I like. Tomorrow I'll give you the catch up provisions the government provides for you in the different type of retirement plans. What to do if your employer doesn't have any retirement plan, and what to do if you're self employed, plus a few other things that you're going to want to think of. Now, we are going to get into your questions.

Amy has a loan on her cash value life insurance and wonders if she should change policies. She writes,

Amy: "Would you do a segment on cash value life insurance policies? I keep hearing they are no good, but I have one. When my agent answers my question, he makes me feel like it's a good idea." Of course he does. "I'm sure I'm being a sucker about it, is it more than just the fees that are in it? Right now, I've taken out a loan against it. I pay interest on the money, but the investment is earning at the full amount. I find it confusing."

Scott A. T.: Yes, in the future I will absolutely be doing an upcoming episode on that. It's in the work, it's in the Que, but I'm also working on a calculator for the website showing the math behind it and why one is better versus the other over time. Which is important. It's one thing to say it, it's another thing where you can actually show it.

If you're starting with no insurance, it's like this, term insurance vs term insurance. Insurance is there to protect your dependents against a loss of income due to you getting eaten by a bear, hit by a bus, asteroid falling on you, struck by lightning, something bad, something bad. What about you if you're in the middle of a policy and you've got a loan out? Should you bail out? Wouldn't you like to know in plain English your best course of action? I have the answer for you, or at least I can tell you where you can get an unbiased answer from someone who's not trying to sell you on a different policy. There are resources and people out there that for a flat fee, or an hourly fee, they will evaluate your unique situation. They will evaluate your policy. The policy that you've got right now and they'll compare it to an existing or a proposed cash value policy. They'll compare it to switching over to a term life policy and it is just a spectacular service for someone who is in that situation.

Anyone who has a cash value policy should pay for this service and have the analysis done. It's like going to a fee only certified financial planner, or you're just paying them a fee and say, "What is my prospects for retirement?" Or, "Here are all my investments, what can you tell me about them?" They're not going to try to sell you on any other investments. These guys aren't going to try to sell you on a specific insurance plan or specific insurance policy. They might tell you, "Here's what you need to get," and, "Here's a good company to go for," but they're not getting kick-backs on them. They're not making commissions on them. They don't care what you do because you're paying them up-front that flat fee, or that hourly rate. I don't make a referral fee, I don't make a commission by recommending these people. They are just referred to me by someone else and I did some research on them as well. I've contacted some of them.

One guy was nice enough, he sent me plan. I said, "Hey give me an example plan or example report of what you're sending people so I can look at it and go over it." He redacted all the names and the personal information, but it was very thorough. A lot of good information. Very complex. I'm sure if he was sitting there reading it to me, it would have been easier for me to understand because it was just numbers and charts and everything all over the place. It's like going to the doctor. You're going to pay your co-fee, the doctor tells you if you're healthy, keep exercising, or he's going to say, "You might need to go see the specialist and have your wallet surgically repaired." Well, the doctor doesn't get paid for that surgery, the specialist does. He's just sending you over there to somebody he thinks is going to do a good job helping you out. Make you healthy again.

These links to each of these services, there's 3, contact them all, get 3 different opinions on pricing, what they'll charge you. They're going to be in the show notes, scottallenturner.com. Amy, check out one of these services. It's worth the feel that you're going to pay to get an honest third party unbiased opinion on what you should do. Thanks for the question.

If you have a question you'd like answered on the show visit, goaskscott.com. You can get in touch with me that way, or drop me a note, say hello, send me a picture of your cat. Maybe I'll post it up on my Instagram page.

About 10 years ago I think it was, I completed a marathon. It was 1 time. I didn't say I ran it, I completed it. I ran 20 miles, I think I walked the last 6. My brother and sister, they're big marathoners, and their advice before I started training was to go to a running store and get fitted for some shoes. I went to this local running store, they get you on the treadmill, they look at your foot size, do all kinds of nice measurements, $130 for the sneakers. That was a lot for sneakers in my opinion, but they did help me. I got the right sizing, got the right fit. A year later, the shoes have worn out, I thought, I'll just get the same exact shoes but I'm going to buy them online. Sure enough, $110 or something like that I found them for on Zappos. I'll do this a couple of more times over the years, and one time I ended up finding the same make and brand of shoe for $80 online. I've already saved $50 from my original pricing.

Now, recently I needed a new pair of shoes because mine were starting to fall apart again. I looked at Katie's shoes and I decided, well I'm just going to get what she's got because she goes to the shoe store to get fitted occasionally. These are cross-trainers, I didn't feel like I needed a fitted shoe. I started on Zappos looking for them, $130 for these shoes in the men's size. Then I hopped in Amazon, $110. All right, now I'm already down $20. eBay, they ranged $130 to $200, but on eBay I started seeing these older versions. The one I was looking at originally was called the Mark 5 or something like that for the fifth version of the shoe. Then on eBay, I see there's a 4, then there's a version 3, and finally I discovered a version 2 which looked like it was from years ago. It's just an older version of the same shoe. Seventy dollars, so I bought them, fit perfect, I'm wearing them right now.

This is very common in the sporting equipment world, not just shoes. If you got kids that play sports, or you play extra-curricular activities, the versioning of shoes and equipment, that's been going on since Air Jordan started coming out with new models every year of his shoe. People will rush out to buy the latest ones. It's like the new iPhone, you got to have the latest and greatest. You can get a sweet deal by shopping eBay for older models and you can save huge money. If you got kids that play sports, if you're a runner, if you just want some new workout shoes, it's a great way to save. If you need sports equipment, same thing is happening. Ski's, snowboards, ski jackets, boots, water sports, bats, tennis rackets, on, and on, and on. The trend is to come out with new technology, new equipment every year. Year, after year, after year. Get the early adopters to pay for the latest and greatest.

It's silly, they even do it in wakeboarding. Every year, they come out with new models of ropes. Now, I ask you, how much can a rope change from year to year? The answer is not much, but they do it. It's just another opportunity for you to save on your hobbies, especially if you've got kids. Check out eBay for older versions of the equipment that you need to buy, especially shoes, and you can find some deep, deep discounts. Back to you questions.

Steve says,

Steve: "I've been following your recommendations to get out of debt and manage my budget better, but now I'm really interested in starting a Roth IRA," like a Roth IRA, "And most likely I may have to hire a financial adviser to set up an account and make contributions. My question is, what are some tips to make sure I hire a good and trustable financial adviser or is it something I can do on my own? Thank you, and keep up the awesome work you are doing."

Scott A. T.: I didn't start out with my adviser until about 6 months after I was married. My wife said, "Hey we should go meet somebody about our finances and get a third party opinion." After her asking me for a period of months, I finally said, "Alright, we'll go and meet one," because they are pricey. They are pricey. At the time. Today there's a lot of different services, and you get piecemeal services, hourly fees, hourly consults, so there's a lot more variables than there were 10 years ago. So some tips, first you want to find a fee only ... Here's the cream of the corp, it's called a fee only certified financial planner. That's my opinion, that's the type of person that I see. That's the person that I recommend others go to see.

I'll tell you what else is out there, and I'll tell my opinions, and they're my opinions on them. You have fee based certified financial planners. If you are fee based, they get commissions, sometimes kickbacks for recommending AKA selling you certain products, so they're making money off the stuff they sell you. In my opinion that is a conflict of interest because you don't necessarily get the best thing, you might be getting the best thing for them. With a fee only certified financial planner, they have a fiduciary duty. They're legally bound to do what's in your interest. It is illegal for them to sell you stuff and make a commission on it. You pay them, and then they do what's in your best interest. They're not selling you investments, they're not selling you insurance, they recommend insurance to you, they recommend investments to you, but ultimately it's your decision. They don't get paid one way or the other if you go with insurance A, insurance B, or insurance C. Or investment A, investment B, investment C.

Some people out there say, well I'll gladly spend 4% on this adviser if they're going to make me a bunch of money. I'm not of that mind because I think when you start digging through the numbers, digging through the promises, again, it's biased advice, it's a conflict of interest. I like fee only certified financial planners, and the fee vary. If you're just starting out, you don't have a lot of assets, you can pick an hourly adviser or somebody who's got a one time consultation fee. I'm not going to lie, it's not cheap if you don't have any money. It might $150, it might be $300. I pay mine a lot of money. It was a lot when we started, and it's a lot more now that we've built up our wealth. He always saves me more in the long run. He always saves me more in the long run. I pay him a lot, and again, he's paid by a fixed rate, he's not selling me anything, but he gives me very good advice.

When you get into some higher income ranges, you can Google certain financial advisers, they can get you into investments that are not available to the everyday person. I am invested in something called DFA funds, which is an index fund, it's a type of index fund. The exact same thing that I'm always talking about on the show and recommending people get into. It's a low cost index fund, but it's got a little twist to it which I'm not going to explain right now. You can't get into that fund unless you work with a financial adviser or a financial planner who has a relationship with the companies that sell those offerings. Can't do it. It's just another reason why working with a financial planner can be a benefit.

Starting out like you are, you can be your own adviser if you do some of the simple boring investing stuff that I talk about. Getting into a ROTH IRA with, you don't even need an adviser to do that. We're just getting going. As your assess increase, if you're willing to pay more for all these consultations, pay someone for a couple of hours of their time, then it's worth while. In my opinion, they save you more or make you more than you end up paying them. It's worthwhile and it's always good to have someone who is an expert and smarter than you working with on your finances. First, got to get out of debt. You don't need an adviser to tell you that. You don't need to pay somebody. Get out of debt first. Go with an adviser and you're in debt, all they're going to tell you is, "Hey, get out of debt first, and then come back and see me."

From there, you can get in some of the easy stuff, 401k, Roth IRA, you don't need an adviser to do that, to start building up more assets, more wealth. I recommend people go see the only certified financial planner. Get that expert third party opinion who has a fiduciary legally bound duty to do what is in your best interest. Somebody who's not trying to sell you crap, high interest commission fees, stuff that they're making money on or getting kick-backs on the back end. They're not doing what's in your best interest, they're doing what's in their best interest. Thanks Steve, for the question.

Quick break. Back in 33.7 seconds. You're listening to Scott Allen Turner.

Hey nation, Scott Allen Turner here. For those of you that are my long time listeners, you know I'm not one of those guys on the radio who promotes every product that shows up on their desk. You're never going to hear me trying to get you to buy supplements that make your skin look better, or recommending you pay for commissioned broker services designed to leave you broker. No, I have a name to uphold to you, my wonderful listeners. If I were, if I were to recommend something to you, I would tell you about ... That my friends is the smell of money burning. Just one of the fine scents your olfactory system can enjoy from Kim Kourtney Candle Company, dozens of great scents to burn your nose and your wallet or purse, such as Mint Julep, Gold Spice, Purple As A Fruit, and Pepperoni Paparazzi. Don't just be seen, be smelled. Available at overpriced stores everywhere.

Welcome back. If you have a question you want answered by me, the website is goaskscott.come. Darinae is up next, apologies if I mispronounced your name.

Darinae: "I currently live with my parents, I would like to get a cash car, but it's hard saving up the money to get something quick. I would have to put money down on the car and make monthly payments. The job I have is low wage due to just starting out and I'm also 5 months pregnant. Being that I don't have a car, I have to spend money to use services like Uber to get around. I attend school in the morning throughout the week, so there's only so many hours that i can work so that everything balances out. I'm in the situation where I'm trying to rush to make all these things happen because time is moving and my stomach is getting bigger, and I can't tell my mom's husband that I'm pregnant or it will cause many more problems. I try hard to save money, but then something always happens where I have to spend the little $3-400 that I'm able to save. I also still have to buy the bare necessitates required to live, so it's just really hard."

Scott A. T.: You are in a hard situation, but from the outside looking in, it seems like it's going to get a lot more challenging if you tack on renting an apartment, and a car alone, and the expenses of a baby. You are 3 times, 3 Xing your challenges. You've got school, then you got work, then you got a baby on the way. You're going to want to spend time with that baby because they're only small for a couple of years. Then they turn into tiny monsters. Really, sit down and talk with mom and step-dad and say, "Guys, I need help, I don't know what to do," and let them offer you the solution. You already know the best choice, and I know the best choice. You need to stay where you are because it's cheaper. It's a financial decision. Plain and not so simple. If you give your parents the opportunity to come up with the solution, they'll feel good about helping, and since it's their suggestion they can't get mad at you for it.

Now, what's the worst case outcome? You get an apartment like you planned? What's the best? Mom and step-dad agree to let you stick around for 6 or 12 months while you're getting things straightened out and the baby arrives. You're going to want that help in the first couple of weeks from mom anyway. It's going to be hard for you to get around. Physically it's going to be hard after going through that pregnancy. I can't imagine parents saying, "Sorry hun, you have to move out tomorrow." It's just not going to happen. Let's work on the housing situation first. Let's take it from there, that's going to drive the rest of your choices afterwards. Also if you still have contact with the baby's father, the guy needs to help out. Unless he's left earth, left the country, he's in jail, he has a legal responsibility to help you out with the finances. Almost every state has an agency that can help you with child support enforcement at little or no cost to you. I'll give a link to the agencies, it's the National Child Support Enforcement Association, NCSEA.org.

It is tough right now, but I'll be honest, it's only going to get tougher in the short-term. When you get those finances situated out, that little baby there, is there with that little smile on his or her face. The world's going to change, it's going to be awesome, and things are going to start looking better. Thanks for the question.

Debbie over in the community had some kind words and she's got a plan. She says,

Debbie: "Scott, I just want to thank you for your podcast and your realness that you add to everything. I was having a hard time getting my head around not adding to my 401k plan at work and the free money that my employer wouldn't contribute as well and you explained it in a way that just turned on a light bulb. We have cut the cable cord, increased our insurance deductibles, and stopped the 401k all this week. I'm excited for my newly found money to help us get out of debt. Thanks for the encouragement to just start doing it." Thank you Debbie for the kind words and for sharing and encouraging others. Nice work.

Scott A. T.: Arguably one of the basic human needs is for comfort and control of knowing if I do this, the result will be that. We get pretty wound up when we get to a point where we ask ourselves, "If I do this, I have no idea what's going to happen." Should you take this job, or that job? They both look great. Should you move to another city? Should you keep dating this person? Should you cut bait and run from a situation? Should I invest in this, or that, or maybe not at all? Should I trust this person? It's a survival instinct. The more comfort you look for, the less risk you're willing to take. If everything is great in your life, you're not going to uproot your family and move far away for a new job with a 10% pay raise. That might be uncomfortable.

If you don't require as much comfort and you're a little riskier, you might pack up the moving truck and just go. Hit the road. Getting completely out of debt, paying off your mortgage, that will leave you with a great deal of comfort, and it's pretty low risk. In fact, it's very low risk. That's just one reason to strive to have a mortgage burning party. Yeah, we paid off the mortgage. Or that paid off all my debts party. Yeah, we paid off all the debt! No car loan. No medical bills. Or that finally paid off the credit cards party. Yeah, no more credit card debt! It's not the money. It's that you feel that basic need for comfort and control. Those are the words.

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