3 Ways To Start Planning Today For Your Retirement

Scott A. T.: Broadcasting from 1 Dallas Tower it's the Scott Alan 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 thinks the television show "Bosch" is boring. On the show today I'll be answering your questions about money, business, and life. This is your show, so if you have a question you'd like answered by me visit goaskscott.com.

Today we've got part 2 of how to catch up on your retirement savings and we'll be getting into some of your questions. This is part 2 of a 2 part series. Today we're talking about the provisions of the government that they provided you if you are age 50 or older so that you can play a little bit more catch up on your savings. If you're over 50, if you've got aging parents, aging grandparents, these are some of the things that they can do in order to sock away a little bit more money. If you find you've fallen behind in your savings, you've got several opportunities to save more of your income in tax deferred accounts through catch up provisions. These are in 401(k)s, 403(b), 457, thrift savings plans.

The 2016 limit is $18,000 a year that you can contribute into those plans. If you're 50 or older you can contribute an extra $6,000 on top of that. Those are the limits for employees, for you putting your own money in, not what your employer puts in. If you get an employer match you can end up exceeding the employee limits. The total combined for employer/employee: $53,000. That's a lot. Then if you're age 50 or older it's $59,000. That's your own money you put in and the employer match. That's a lot of money to put away. 97% of 401(k) plans have this catch up provision where they allow you to put more money in. If your employer's plan doesn't you can lobby them, have to do a little leg work, to get them to amend their plan.

Now, what if your employer doesn't have any type of retirement plan? Millions of people are in this situation, millions. If that's you, first step is to get started with a Roth IRA. You can do that in less than 10 minutes. I've got a guide on the website showing you how to do that. IRA contribution limits, and this is traditional or a Roth IRA, for 2016 the limit is $5,500. Total contribution between a traditional and a Roth, you can't do both, it's $5,500 total. If you're age 50 or older they let you throw in an extra $1,000, so it's $6,500.

If you're self employed your alternative is to open up a Simplified Employee Pension, it's called a SEP S-E-P, or you can do a solo 401(k). Paperwork for either is very simple, straight-forward. You can do them at low cost brokers at no cost. Both of those plans, the SEP and the solo 401(k), they're like traditional IRAs and employer sponsored 401(k)s in that the money you put in now, they're going to reduce your current year's taxes, so they're done with pre-tax dollars. You pay the tax when you start pulling them out in retirement. Total contributions, same as if you were employed by someone else: $53,000 a year between employee and employer match, or $59,000 if you're playing catch up.

Hey, if you can't start saving money now or you don't have that capability because of your current situation, it's not the end of the world. If you're in your 40s or 50s, you got a long time to go. You've got a long time to go. A long life expectancy most likely, depending on your family history. How should you allocate your contributions if you are playing catch up? Remember, if you're not in something like a target date fund where they're doing the allocation for you, you've got to figure our what you want to invest in. Where's your money going to go? You have to consider your risk tolerance and your time horizon. If you're retiring tomorrow that's a big difference than if you're not retiring for 20 years, or you're going to work for another 10 years. There's some things that you want to look at.

First is, how are you dividing your investments up? That should match your time frame. If you're 10 or more years out, want to be a little bit more aggressive, a little bit more in higher risk investments. Which means more stocks, fewer bonds. Stocks have higher risk but they also have higher return, and the potential to grow your money more. As you get closer to retirement date your investments should be allocated more conservatively. More cash, more bonds, less in stocks because cash and bonds are less risky. I can't give you exact percentages because everyone's situation is different. That's why you want to sit down for a couple hours with a fee holding certified financial planner. That's what I would recommend. It's important, they can look at your entire investment scenario and your retirement goals.

You also want to consider your life expectancy. If you decide to retire at age 65, doesn't mean you're going to cash out everything and stick it in the bank or under your mattress. Hopefully you wouldn't stick it under your mattress. If you've got tens of thousands of dollars that's not the place that you want to put it. Don't do that. If you think you might live another 20 years until age 85 you still want your money to keep pace with inflation. That means, again, proper asset allocation and risks. Inflation is roughly 3% a year. You want to make at least 3% a year on your investments so your money doesn't lose its buying power.

Finally, you want to stick to your plan. This is where most people go wrong. It doesn't matter your age, this is where people go wrong. Somewhere in those 10 to 30 years, if you are age 40, 50, 60, or those 10, 20, 30, 40, 50 years if you're in your 20s, the stock market is going to go up and it is going to go down. Sometimes by a lot. The people who jump in and out when it starts going down, they end up the big losers. They end up losing the big bucks. If you've done your research and you believe in the plan that you've selected, you believe in the course that you've set, you're trying to sail West on your boat because you know that's where you want to go, stay the course.

Don't suddenly decide halfway through there, "Oh, looks a little cloudy over there in the West. Looks a little cloudy in the horizon. Let's just flip it 90 degrees and go North instead. North, it looks sunny up there. Let's head that way." No, just keep going West. Ride it out, even during the rough patches. If you liked the plan before you started it and it made sense to you, then you should stick to the plan that you've elected to go on. Doesn't mean you should stick with a bad plan, but you should really know the reasons of why you're trying to get out of the plan that you initially set to make sure it's for the right reasons, not for emotional ones.

Other things you ought to consider when you're trying to play catch up on your retirement savings, if you're already maxing out your investments or you're doing the best that you can, there are a few other things that you can look at. Top of the list is cutting back. If you're frugal now chances are that's going to continue on into retirement. It's highly unlikely if you are eating cereal for breakfast now, the day after retirement you suddenly switch to eating steak and eggs 7 days a week. Your frugality is going to continue. Many people think about retirement and they're looking forward to simplifying their lives and getting rid of stuff and downsizing. Well, if that's your outlook for when that happens, just do it now. If you're in a big house consider getting into a smaller house sooner rather than later. If you're an empty-nester downsize, because you can pocket those savings of the smaller mortgage, smaller utility bills, smaller dollars going to upkeep and maintenance and that's additional savings for you. If you don't need a big house, get out of the big house sooner rather than later.

What if you're living paycheck to paycheck? There's more room to trim expenses if you have higher income, that's certainly true. If you're a lower income family and you're starting to hit retirement, there's not as much opportunity to trim expenses. If you have a tight budget now chances are you're going to need a bigger nest egg to replace your income when you get into retirement. It's going to be more of a challenge. It's going to be more of a challenge to cut the estimated 20% of your expenses used as the general guidelines once you retire.

Another consideration is healthcare. You don't know if you're going to be running marathons in retirement or you don't know if you're going to be stuck in a wheelchair. That's the problem everybody faces. It's a guessing game. Your best laid plans can get derailed because of health care costs. That's why it's important to have as big of a nest egg as you can. The health care costs can easily chew up huge chunks of retirement savings. Bottom line: better to have too much money than not enough. Having the precisely exact amount, that is utterly impossible unless you know the exact day of your funeral, which I don't think you do. I don't. Now that you know 150 years ago you'd have never even thought about sitting on your front porch 7 days a week, sipping lemonade on your 65th birthday, maybe you'd be less concerned about dwelling on an arbitrary number like 65. You can work until you physically can't anymore, or you can enjoy sipping lemonade with the grandkids. You get to choose. Now on to your questions. We're heading to the phones to get started.

David: Hey Scott. My name's David in West Palm Beach, Florida. I'm considering taking the $43,000 I have in my 401(k) and cashing out because I'm really strapped for cash. I invest in real estate. I'm getting into the lending business with the contacts in that. I have my money tied up in my house. I owe $410, it's probably worth $720. I have equity in a couple other properties that I'm flipping right now with partners. They put up the money, I do the work, yadda yadda yadda. I wanted to get your take on cashing out a 401k) from a previous job. I'm not in that industry anymore. I'd end up taking $30,000 out. I already rolled it over to an IRA so I can take it out in increments and not have to do it the whole thing, so I'll only take out what I need. As things pick up I can put back in, or I don't have to waste it. Anyway, wondering your thoughts. Thanks.

Scott A. T.: Since you've left the company you're technically not taking out a loan on your 401(k) like some people do. It's an early withdrawal. If you take out an early withdrawal, on top of your Federal and State income tax, if you're younger than age 59 1/2, which I believe you are, you're going to have to pay a 10% early withdrawal penalty. Your result, if you cash out $30,000 in your 401(k)/IRA you may just end up with $21,000 in cash after the 20% withholding, or the tax rate, whatever you're at, and a 10% early withdrawal penalty. It's like taking out a loan with a 30% interest rate. You're losing $9,000 plus the money you're going to use on top of that. Now, you said you're taking it out in drips, so you won't get hit all at once if it's spread out over a period of years.

It's high risk doing so. Got to ask yourself the question, "Is it high reward?" I'm strapped for cash. My first order of business is to sell everything I possibly can before I raid my retirement. That's going to be the last thing I touch. Number 1: the penalties are huge. I just mentioned those. Number 2: you're robbing future you of that money. Number 3: it's more than likely you're never going to make that money back in the investments. I'm selling my car for an el cheapo, I'm selling my dining room table. I'm selling any other investments I might have that don't have any penalties if I've got separate staff, separate funds that I've purchased. I'm raiding my emergency fund if I have to. It's tempting to do, but I treat those retirement funds like a box of uranium buried a mile in the Earth. I'm not touching it. It's radioactive. Nothing good can come of it.

Now after all that, what can you do? You look yourself in the mirror and you say, "I have done everything I could do, and I'm not lying to myself, but I'm still strapped for cash." If I'm facing a foreclosure, if I'm facing a bankruptcy, if I'm doomed, the king is calling for a collection of his subject, yes I'm probably going to use what's in my 401(k) or my IRA. Taking a hit on the money I already own is preferable to me than going into further debt by doing something like taking out a personal loan or even getting a home equity line of credit, a HELOC. Those things, those decisions, they would just be putting me further in the hole. On top of that they're going to put my house at additional risk as well. Thanks, David, for the question. If you have a question you'd like answered on the show visit goaskscott.com to get in touch with me or drop me a note to say, "Hello", tell me if I'm doing a good job or a bad job. You want to send me a picture of a cat, you can do that too.

Megan over in the Facebook community had a post. She says,

Megan: "Keeping your stuff up on the sales websites a long time can pay off. We've had furniture posted on a app called Offer Up for almost 5 months and finally had a buyer for 2 of the 4 pieces last week. They were only $20 less than our asking price." The Offer Up website is pretty interesting. It's a little bit like Craigslist but it's pretty. It's a pretty website. You can offer people different things for different amounts. Lots of vehicles on here. I am looking at right now a 2008 Hyundai Elantra with 90,000 miles on it for $5,200. Hyundai is an excellent car, so if you're looking for a cheap vehicle that's certainly a good deal if you're looking to unload a car loan and get something cheap. $5,200; 90,000 miles. Good looking car. Megan's original comment was in reply to, I was looking for people's wins over in the Facebook community and see what kinds of deals they were getting.

Scott A. T.: Here's something else I want to share with you. Never feel guilty about selling your junk as long as you're honest about it. If you've got something, "Nobody would want this", or stuff that's broken, people will buy broken stuff. Here's the exact description word for word of what I posted on eBay for something that I was selling. It was a wireless thermostat controller. This is what I put, "I think this product is a piece of crap. If you want to try your hand with this piece of crap, have at it. I'd rather sell it than throw it away, even though I'm tempted to just take a hammer to it." Then I explained the reasoning behind that. At the very end I said, "There, I have a clear conscience now." I had 2 of these things, and I sold them both for $20 each. I didn't like the products. They had been sitting around in the drawer a couple of years. I was honest, somebody else understood what they were getting and they bought them. I made $40 off it, even though I felt they should have been thrown in the trash.

Now back to your questions. Jeff says,

Jeff: "I am currently in a mutual fund that pays 1.8% in fees." Boo, that's a lot. "I want to pull my funds and put them into low cost index funds. The market is currently on the low side and everything I've read says to buy low and sell high. If I sell low and buy right away at low, it shouldn't make a difference. The same would go if I sold high and then bought high, I assume." You're selling a Coke to buy a Pepsi. It doesn't matter when you do it, it's more important to be in the market. I am selling a mutual fund that has a goal of say, long term growth of capital and income. I'm getting into an index fund that has a goal of, long term growth in capital and income. I'm trading apples for apples.

Scott A. T.: My new apples are making me more money because I'm not paying a guy in a business suit to walk around the orchard with a laptop and speculate on which branches and leaves to trim to allow more sunlight to reach each piece of fruit. No, I'm paying Bob $10 an hour to keep the deer away. Just let the trees grow. Nature's going to handle it just fine. If it's me, I'm not concerned. The same thing happens when you rollover a 401k) to an IRA. You get into different but hopefully similar in goal funds that are cheaper. If you have a bunch of gains in your fund that you're in now, you may get hit with capital gains taxes, you have to consider that. If you have a loss you get a capital gains deduction on your taxes. That's a good thing. Thanks for the question, Jeff.

Michelen says,

Michelen: "I am trying to move away from relying heavily on debt and credit cards for purchases, and commit to paying with cash. I'm also struggling with doing a budget every month. I monitor my bank accounts every day and other accounts once a week. This helps to catch fraud activity but it doesn't help me manage my spending. I believe if I can budget monthly and pay with cash I can have long term financial success. I'm trying to move away from things I do regularly that do not help me achieve long term financial success, such as being free from debt, having an emergency fund, and being able to feel financially secure. I'm struggling with moving out of my comfort zone and what I know. Also, I know it doesn't work well, and committing to a long term change."

Scott A. T.: Michelen, if you want to live an un-normal life out of debt, you have to take an un-normal approach. When we make the radical choice to get out of debt we're pretty much blowing up our finances. Our thought patterns, our habits, sometimes our lifestyle choices if we're going to go to some extremes. A single little thing like not buying a soda in the afternoon from the vending machine, that's not going to cut it. We're getting a redo. We're going to redo our finances. If you had to do one thing to get out of credit card debt it would be to get on the cash budget, which you are doing. Great job. It's a bold action. Change is a bold action because change is hard. I want you to take a moment to think about what the outcome is going to be when you go through this. It's going to be much better than where you are right now.

Every choice you make today, it is either going to create a better tomorrow or it won't. The extraordinary results that you're looking for, they are built on tiny daily decisions that accumulate over time. Failure is part of extraordinary results. Don't be afraid. You learn, you grow, you analyze, you review, like you're doing, and then you adjust. You get to the next day and you repeat. Learn, grow, analyze, review. It's just part of how we learn and achieve our goals. Getting out of debt; it's about making wiser choices. It's not about making every choice wise. We're going to mess up. When you follow the cash budget and just do enough to be consistent it's going to stop becoming a chore and it's going to stop becoming work to establish it. It's just going to become part of your everyday life and your way of doing things. It will start working for your finances because you worked on the habit.

Is there a magic number we're looking for? Actually, research shows it's 66 days. 66 days to form a new habit. Some places out there will say 15 days, 30 days, 10 days to a new you. Most newer studies are showing 66 days to develop a habit, becoming part of your way of life, ingraining it so you don't have that fear anymore. You don't think about it, it just becomes something that you do. If you stay committed to it, you will have long term financial success. Don't give up. Keep going with it. Keep doing the cash budget. Keep checking your accounts at least once a week to make sure you're on track. Then it's just going to become part of your life and you won't have to think about it so much any more. Thanks, Michelen, for the question. Back in 49.2 seconds. You're listening to Scott Alan Turner.

Hey nation, Scott Alan Turner here. Now, for those of you that are my long time listeners, you know that I'm not one of those guys in the radio that promotes every product that shows up on their desk. You're never going to hear me trying to get you to buy enriched white flour, delicious, or recommending you buy Windows, blue screen of death. No, I have a name to uphold to you, the Rock Star Nation. If I were, if I were to recommend something to you, I would tell you about Himalayan cats. No other cat requires as much brushing as a Himalayan. You can spend hours of peaceful time brushing, brushing, brushing your Himalayan cat. With all that extra fur you collect you can stuff your own pillow, saving you money from that expensive down pillow you've been considering. Win/win. You can figure out how to spell Himalayan and type it into Google. Tell them Scott Alan Turner sent you.

Welcome back. You're listening to Scott Alan Turner. If you have a question to want answered on the show the website is goaskscott.com. Nice little piece of music there if not slightly inspired by "I Miss the Misery" by Halestorm. Getting back to your questions.

Cherea: Cherea wants to pay down debts. She's got a medical payment with 0% interest, $1,000 balance. Husband's student loan: $11,000 balance, 2.3% interest. Her student loan: $5,000 balance, 5% interest. Car loan: $17,000 with a 9% interest, minimum payment $560 a month and $12,000 on the credit cards, also 9% interest. Income: $6,200 net a month and we've got 2 small kids and daycare is $250 per month. $46,000 in debt on $6,200 take home. For those of you that don't know, net pay is what you take home after your exemptions. Taking out your Social Security, Federal/State withholding taxes, any other deductions from your gross, the total. Your net pay, that's just what is listed on the paycheck as the final bottom number. It's what hits the checking account.

Scott A. T.: If you've found yourself in a hole, or you dug yourself into a hole, stop digging. The first thing I'm going to do is cut up the credit cards. Got to break that cycle of staying in debt by not accumulating more debt. That's the first thing I'm going to do, move to the cash based budget. Next thing is I'm unloading that car, or at least I'm going to refinance it at a credit union or somewhere online that's giving me a lower interest rate than 9%. I'm doing one of those things first. If your credit isn't good that might not be an option for you. Also, if I do refinance that I'm not going to refinance it to extend the payments. I just want the lower interest rate so I can put more towards the principle. You take a 3 year loan, whatever you've got left on that, you stretch it out to 7 years and you keep paying the minimums, you'd be asking me the same question 7 years from now. How do I get out of debt? Why am I unloading the car? I really don't want to be in debt and I'm going to do whatever it takes to as quick as I can to be free from the chains that are holding me down.

After that, and so far I've probably spent 60 minutes on this, I am posting all my stuff I don't need, use, or want to Craigslist or Facebook groups to come up with $1,000 to pay off that medical debt today. You just need a quick and easy win. If your net is $6,200 you're a high income earner, which most likely means you got stuff, you got stuff. Or as I call my stuff, future junk. Take a look around. Ask yourself, "Am I going to want this and this and that 5, 10, 20 years from now?" When I do that I look around, I see, "Alright I've got a couple guitars that I'm going to keep." We keep our Christmas ornaments because we pick one up whenever we travel, those are memories. My Star Wars collection, I'll keep that forever. They keep skyrocketing in value, not really. I've got a few knick knacks. Katie's massive glassware collection she wants to hang on to. Everything else I can pretty much do without. I'm going to unload stuff.

Your student loan rates are pretty good, so I'm not doing anything there to refinance them. You've got a 2.2 and a 5. Credit card balance, you could look and see if you can get a 0% balance transfer to a new card to buy yourself 12 months and get that lower interest rate, but you better watch that date as it comes up if you can get that balance transfer. If your rate shoots up to 18 or 22% and you haven't paid down that debt you have shot yourself in the foot. You're going to be in a bad situation. Then I'm going to pay off your student loan because that's the next smallest item, it's also got a higher interest rate than your husband's. After that one's gone, then I'm paying down your husband's student loan.

Where I pay the credit card in there kind of depends if I didn't get that balance transfer to get a 0% interest rate or not. I'm going to point out, some people say a balance transfer does not address your behaviors, the issues that got you into this in the first place. In 6 to 9 months you'll be right back in the same position because you've just delayed the problem. You put it off. You're in the same position because something happened or something came up or this is too hard. We couldn't stick with the budget. Whatever it is, just insert your excuse here is what a lot of people do. If you don't take your debt seriously you will be back here in 6 to 9 months if you do one of these balance transfers.

If you make a plan, if you follow the plan, if you live by the plan, if you die by the plan, what will happen? You get out of debt. It's a process. You will fail along the way. I can almost guarantee it. Nobody who got rich did so without failing along the way. Nobody who got out of debt did so without failing along the way. That's how we got there to begin with. Right? We failed in some aspect. What is important is you can get out and you will get out if you choose to get out. Thanks, Cherea for the question.

Have you heard the Devil's Fable? It's interesting. It's an old fable and like most old fables it has a moral to the story. The story goes, Satan was having a sale of his wares and he had a display up. He was selling the rapier of jealousy, the dagger of fear, and the strangling noose of hatred. Each had a high price tag on it. Very alone on a purple pedestal in the midst of everything with a big spotlight gleaming down on it like you'd see in a jewelry store, was a worn and battered wedge. It was the Devil's most prized possession for with it by itself he could stay in business, and he wasn't going to sell it. It was the wedge of discouragement. The Devil prizes this wedge above everything else because of the demoralizing effect that it has on people. Hatred, fear, jealousy, they may lead you to act unwisely, or to fight, make a mistake, act out in haste. At least you would act. Discouragement on the other hand, that's worse than the other ones combined. It causes you to sit down, dwell and pity, and do nothing.

The answer to discouragement is then to take action. Get up, get out, get going and do something. Those are the words. That's it for this episode. I am your host, Scott Alan Turner. Rock star Katie is my producer. All the links mentioned in the show are available in show notes on scottalanturner.com. If you have a question you'd like answered by me visit goaskscott.com. Thanks for listening.

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