8 Simple Steps to Plan For Retirement Now

The Facts

Most people spend more time researching a vacation than they do on retirement planning. The very subject seems to strike fear and inertia in everyone. Fewer than half of Americans have calculated how much they need to save for retirement. As lifespans increase, the average American will spend roughly 20 years in retirement. Putting money away is a habit we all need to embrace, no matter what our age.

1. Start Now

It's never too early to start saving. Get going now and designate all you can. Start small if you have to and try to increase the amount each month. The sooner you start, the more time your money has to grow. Make saving for retirement a priority.

2. Understand Your Retirement Needs

Retirement is expensive. Experts estimate that you will need 70 to 90 percent of your pre-retirement income to maintain your standard of living when you stop working. When are you ready for retirement? A general rule of thumb is estimating the amount of interest you can live on from your retirement savings. For example, if you have a million dollars in retirement savings, you would live on the 4% interest you earn annually ($40,000). If that number is nowhere near what your expected expenses will be, you'll need to work longer or save more money per year.

3. Employer Retirement Savings Plans

401 (k)

Almost 30% of workers with access to a contribution plan do not participate. If your employer offers a 401(k) plan, sign up and contribute all you can. Your taxes will be lower, your company may kick in more, and automatic deductions make it easier to live with.

Pension Plans

See if you are enrolled and how much your company is putting into your individual benefit. If you plan to change jobs, find out what will happen to your pension. Also, inquire if you are entitled to benefits from your spouse's plan.

4. Basic Investment Principles

Don't put all your savings in one place. By diversifying, you are more likely to reduce risk and improve return. Your investment mix may change over time depending on your age, goals, and financial circumstances.

5. Don't Touch Your Retirement Savings

If you withdraw your retirement savings early, you will lose principal and interest, tax benefits, and likely have to pay withdrawal penalties. If you change jobs, leave your savings invested in your current retirement plan, or roll them over to an IRA or your new employer's plan.

6. Individual Retirement Accounts

You can put up to $5,500 a year into an Individual Retirement Account (IRA); you can contribute more if you are 50 or older. You can also start with much less. Set it up so that an amount is automatically deducted from your checking or savings account and deposited in the IRA.

When you open an IRA, you have two options – a traditional IRA or a Roth IRA. Traditional IRA contributions are tax-deductible on both state and federal tax returns for the year you make the contribution; withdrawals during retirement are taxed at ordinary income tax rates. Roth IRAs provide no tax break for contributions, but earnings and withdrawals are generally tax-free.

7. Social Security

Social Security pays benefits on average equal to about 40 percent of what you earned before retirement. You can estimate your benefit by using the retirement estimator on the Social Security Administration's website.

8. Seek Professional Advice

These steps are meant to get you headed in the right direction. Once you have gathered information and done some basic numbers, you should ideally meet with a financial planner. How to find a reputable one? Consult with your employer, your bank, your union, your friends, and colleagues. Word of mouth from those you trust is actually one of the best ways to go. If they have a good relationship and positive outcomes, that's better than walking through the door of someone with no "live" track record.