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## **Are Gen Xers Planning for Retirement the Right Way?**

*Some are planning wisely, but others are beset by mistakes.*

Provided by Frank DeMaio\*

**Generation X has become the new “sandwich” generation.** Many Americans born during the years 1965-80 are finding themselves caring for aging parents and growing kids at once, with little time to devote to their personal finances or their retirement planning.

Broadly speaking, that time shortage has hindered their retirement saving and planning efforts. Some members of Gen X are on track to reach their retirement money goals; others are making mistakes that may greatly undermine their progress. What kind of mistakes, specifically?

**Procrastination.** In a recent survey of 36- to 49-year-olds commissioned by the Transamerica Center for Retirement Studies, 39% of respondents said they would prefer to tackle retirement investing when they were nearer to retirement age.<sup>1</sup>

If you are in your thirties or forties, this is a mistake you cannot afford to make. When it comes to retirement saving, time is your friend – perhaps the best friend you have – and the earlier you start, the more years of compounding your invested assets can receive. That is not to say all hope is lost if you start saving and investing at forty, however. You just have to save considerably more per month or year to catch up.

A very simple compounding example bears this out. Let us take a 25-year-old, a 35-year-old, and a 45-year-old. From this day forward, each will contribute \$1,000 a month for a 10-year period to a retirement account yielding 7% annually. At the end of those ten years, they will stop contributing to those accounts and merely watch that money grow until they turn 65 (not recommended, but again this is a simple example). Under these conditions, the person who saved for just ten years starting at age 25 has \$1,444,969 at 65. The person who saved for ten years starting at 35 has but \$734,549, the person who saved for ten years starting at 45 only \$373,407.<sup>2</sup>

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**Raiding the retirement fund.** Think of your retirement fund as your financial future, or at least a large part of it. Many instances may tempt you to draw it down: your children's education expenses, student loan debt, eldercare costs. Refrain if at all possible. Work on creating an emergency fund so you can avoid this (if you already have one, great).

Every loan you take from a workplace retirement account leaves you with fewer invested dollars, fewer dollars that may grow and compound faster than inflation via the equities markets. Your forties, in particular, represent a prime time to ramp up your saving effort as your salary and/or compensation presumably increase.

**Undervaluing catch-up contributions.** Beginning in the calendar year you turn 50, you are permitted to contribute an extra \$1,000 to your IRA per year, and an extra \$6,000 per year to a typical 401(k), 403(b) or 457 plan. An extra \$1,000-\$6,000 per year may not sound like much, but if you have both an IRA and a workplace retirement plan, this gives you a chance to save an additional \$50,000-\$100,000 (or more) for retirement between now and when you presumably wrap up your career. Those dollars can benefit from compounding as well. Even the opportunity to direct an additional \$1,000 into an IRA each year should not be dismissed. Sadly, some savers will enter their fifties not knowing about catch-up contributions or not valuing them enough - but you will consistently make them, right?<sup>3</sup>

**Not planning with the "end" in mind.** Many Gen Xers are saving for retirement without defined financial objectives. They do not yet know how large their nest egg needs to be in order to generate worthwhile retirement income. They have not really thought about what they want their money to accomplish. Even using a free online retirement calculator (there are some really good ones) might yield some food for thought.

**Foregoing consultations with financial professionals.** One of the demerits of DIY investing is the learning curve. Investing for retirement without any help is akin to trying to find a street address without help from a map: you might get close, you might get there, but most of the time you may not know how close or far away you are from your goal. A meeting with a financial professional can lead to an overview of where you stand, and give you a firm idea of what you need to do as you pursue your retirement goals further.

**The good news? Gen Xers are making a solid effort to save.** In the aforementioned Transamerica survey, 83% of Gen X respondents said they were building up a retirement fund, and 20% of them had amassed more than \$250,000 in retirement savings prior to age 50.<sup>1</sup>

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**Citations.**

1 - [forbes.com/sites/nextavenue/2014/08/28/7-retirement-mistakes-gen-x-is-making/print/](http://forbes.com/sites/nextavenue/2014/08/28/7-retirement-mistakes-gen-x-is-making/print/) [8/28/14]

2 - [moneyunder30.com/power-of-compound-interest](http://moneyunder30.com/power-of-compound-interest) [2/27/15]

3 - [shrm.org/hrdisciplines/benefits/articles/pages/2016-irs-401k-contribution-limits.aspx](http://shrm.org/hrdisciplines/benefits/articles/pages/2016-irs-401k-contribution-limits.aspx) [10/22/15]