Financial Services, LLC

167 South River Road
Suite 11
Bedford, New Hampshire 03110
Tel: 603-641-1010
Fax: 603-641-0707
e-mail: fdemaio@jtdfinancial.com
www.jtdfinancial.com

Getting Financially Fit for Retirement at 50

Things for trailing-edge boomers & Gen Xers to consider.

Provided by Frank DeMaio*

When you turn 50, retirement starts to seem less abstract. In terms of retirement planning, a 50th birthday can act as a wake-up call. It may offer a powerful reminder to trailing-edge baby boomers and Gen Xers, many of whom are wrapping up their second act with inadequate retirement savings for their third.

You may find yourself with such a shortfall, and you wouldn't be exceptional. Your peak earning years may arrive in your forties or fifties, but so do other responsibilities with big price tags (raising a family, caring for aging parents, building a business). Throw in some "wild cards" like divorce, bankruptcy, or health scares, and any fortysomething would be challenged to build significant wealth – and yet it happens.

According to the latest Wells Fargo Middle Class Retirement Study, the median monthly retirement savings contribution by middle-class Americans aged 40-49 is $200. How about middle-class folks in their fifties? It must be more, right? No, the median contribution is even less: $78, working out to $936 per year. (Wells Fargo defined middle-class households as having 2013 income of $50,000-99,999 or investable assets of $25,000-99,999.)[1]

Just as alarming, 50% of the survey respondents in their fifties said they would ramp up their retirement savings efforts "later" to make up for what they weren't doing now. When you're in your fifties, there is no "later" – you have to act now. "Later" equals your sixties and your sixties will likely be when you retire.[1]

So what can you do here and now? Whether you've saved a great deal for retirement or not, what decisions could possibly strengthen your retirement nest egg?

Make those catch-up retirement plan contributions. They may seem inconsequential in the big picture, but when you factor in potential investment returns and the power of compounding, they really aren't. You can start making catch-up plan contributions in the year in which you

turn 50. (You can make your first one while you are 49; it just has to be made within that calendar year.) If you only have a five-figure retirement savings sum at age 50, your retirement savings may double (or more) by age 65 through consistent inflows, compounding and catch-up contributions and decent yields.[2,3]

For 2015, there is a $1,000 catch-up contribution limit for IRAs and a $6,000 catch-up contribution limit for 401(k)s, 403(b)s, most 457 plans & the federal government's Thrift Savings Plan.[4]

Explore ways to save even more. Are you self-employed and a sole proprietor? You could create a solo 401(k) or a SEP-IRA. If eligible, you can defer up to $53,000 into those plans for 2015. Also, SIMPLE plans (to which both employers and employees may contribute) have contribution limits of $12,500 next year with a $3,000 catch-up limit.[4,5]

Slim down your debt. Retiring debt-free is a remarkable financial gift that you can give to yourself, and you ought to strive for it. You will always have some consumer debt and you may incur medically-related debts, but paying off the house and avoiding large, new, "bad" debts should be high on your financial to-do list. If accelerating or pre-paying your mortgage payments makes sense, see if your monthly budget will let you do so; be sure you won't face those rare prepayment penalties. Once your residence is paid off, you might consider living in a cheaper, tax-friendly state – another way to retain more money.

Look at LTC & disability insurance. Again, this comes down to "how much can you afford to lose?" While long term care coverage is rapidly growing more expensive, it still may be worth it in the long run as medical and scientific advances make the chances of lingering our way out of life more common. Should something impede your ability to earn between now and retirement, disability insurance could provide relief.

Consider revisiting your portfolio's allocation. Since 1964, there have been seven bear markets. On average, they lasted slightly more than a year. On average, it took the S&P 500 3.5 years to return to where it was prior to the plunge. If you are 50 or older, think about those last two sentences some more. If your portfolio is allocated more or less the same way it was 30 years ago (some initial portfolio allocations go basically unchanged for decades), revisit those percentages in light of how soon you might retire and how much you can't afford to lose.[6,7]

These are just some suggestions. For more, tap the insight of a seasoned financial professional who has known and seen the experience of saving during the "stretch drive" to retirement.

Frank DeMaio, CPF®, CFA is a Registered Representative offering securities through UNITED PLANNERS' FINANCIAL SERVICES OF AMERICA, a Limited Partnership, Member FINRA, SIPC. Frank may be reached at 603-641-1010 or fdemaio@jtdfinancial.com. JTD Financial Services and United Planners' are not affiliated.*

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