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Little Things That May Help Your Retirement Saving

Over time, these seemingly small factors could make a major difference.

Provided by Frank DeMaio*

Saving for retirement takes decades and demands the investment of significant amounts of your income. As this major effort unfolds, you should recognize that some subtle factors and seemingly minor decisions could end up making a sizable and positive impact on your financial future.

Your investment yield may be less important than the amount you save. Beating the S&P 500 feels great, but outperforming the market is not your foremost goal. Your real retirement saving objective is to accumulate sufficient assets – enough to provide adequate income in the "second act" of your life.

How much control do you have over your investment returns? The short answer is very little; market cycles, macroeconomic factors, and the behavior of institutional investors influence them profoundly. On the other hand, you have direct control over your savings rate. The more you pour into your retirement accounts, the more dollars you are giving a chance to compound.

As a hypothetical example, say two people have balances of $100,000 in their respective retirement accounts. Ariel earns a 10% annual return and puts $10,000 into the account at the start of every year for 20 years. David gets a 12% annual return from his account, but he never adds to its $100,000 principal during those 20 years. After 10 years, Ariel's account balance is $434,638, while David's is $310,585. After 20 years, Ariel has $1,302,775, while David has $964,629. Result: David falls behind, even while achieving a 2% greater return.[1]

Investment account fees can take a toll. Account fees are little things, but their impact over the years can be enormous on a retirement saver. This is why you may want to place your invested assets into accounts with minimal fees, annual fees of well under 1%.

Everyone talks about the several hundred dollars a year you can save (and invest) by swapping out your daily, flavored latte for a regular cup of joe, but you might as well keep ordering lattes.

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The money lost to lattes pales next to the money you could potentially lose to account fees. Demos, a public policy think tank, estimates that high expense ratios and administration fees on investments in a typical workplace retirement plan may cost a middle-class, dual-income household as much as $155,000 in retirement assets over a lifetime.[2]

What you avoid doing may help your effort as well. Resist the impulse to deviate from your long-term retirement planning and investing strategy without careful examination. Be wary of the emotional reactions to headlines or market disruptions, those little voices urging you to get out of the market or tilt your portfolio one way or another. Refrain from siphoning down the money in your retirement accounts and using those dollars for another purpose. Stick to your plan, ride through the turbulence, and avoid making a quick, impetuous decision that might do your retirement funds more harm than good.

On that note, remember that tuning out the noise is okay. The financial world is a noisy place, a place of non-stop trading and information flows. Any notable news development becomes a front page (or home page) item. It may seem risky to accept so much of this breaking news passively, with no reaction on your part as an investor or a saver – but passivity has its virtues. A little passivity – in your temperament, in your investment approach – may leave your retirement savings in surprisingly good shape over the long run, compared to the savings of someone who reacts to every temperature shift in the market climate.

Pay attention to these little things as you pursue big financial objectives. In hindsight, you will likely be glad you did.

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