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6 Big Mistakes Too Many People Make When Saving for Retirement

Retirement is one of those important milestones that proves perennially challenging for generation after generation of Americans, and, unfortunately it doesn't seem to be getting any easier. According to the 2014 Retirement Confidence Survey, conducted by the Employee Benefits Institute, more than half of American workers have not calculated how much money they will need in retirement, meaning that millions may never achieve their retirement goals.

Indeed, studies have shown that retirement in America is becoming something of a luxury. More and more Americans report that they expect to work during their retirement, for instance, and the "majority of workers (55%) expect to retire after age 65, or do not plan to retire at all," according to a Gallup poll released last April. Further, the same study found that the average retirement age in the U.S. has risen to 62, the highest average Gallup has ever found since it first started collecting data on the retirement age in 1991.

The Gallup study also found that “the average working household has virtually no retirement savings,” and cites stagnating wages as a key culprit. “The hope of retirement security is out of reach for many Americans in the face of crumbling retirement infrastructure,” the study notes, adding that the average American family has a median retirement balance of $3,000.

The Gallup poll found that retirement savings are closely linked to income and wealth. Unsurprisingly, wealthier Americans are much more likely to own a retirement account, while lower-income families are much more likely to have little or no savings. According to the study, more than 38 million working-age households (45%) do not own any retirement account assets.

Regardless of your stage in life, it’s clear that retirement is an issue Americans need to take more seriously. Whether you are a millennial hoping to educate yourself about how best to start prepping for retirement, or a Gen Xer or even Baby Boomer looking to see how you can improve your prospects, we’ve outlined some of the biggest mistakes people make when saving for retirement, and how you might be able to rectify them.

1. Waiting too long to start

Waiting into your late twenties or mid-thirties to begin saving for retirement might seem like an all-too-obvious no-no. But there are a number of different reasons why people procrastinate saving. For millennials, an underemployed generation veritably drowning in student loan debt, saving for retirement can often take a back seat to paying down loans. According to CNN, the number of Americans who have student loan debt in some form has risen to more than 40 million, and the average student loan debt in the U.S. is now around $29,000.

But even if you have mountains of student loan debt, experts note that it is imperative to start saving for retirement as early as you can. FinancialMentor notes that the most important asset you have when saving for retirement is time. Simply put: The earlier you start saving, the easier it will be to achieve your goals for retirement. “Every six years you wait to get started doubles the required monthly savings necessary to reach the same level of retirement income.”

So what if you’ve yet to start saving? Experts say the main thing is to simply start now, save as much as you possibly can, and be smart about where you invest your money. You might also consider seeking the counsel of a financial planner to identify in writing some concrete goals to help get you on track. And whatever you do, don’t procrastinate any longer. “When you keep putting it off, it’s all too easy to get to retirement and find out you don’t have nearly enough saved,” notes Katie Brewer, a certified financial planner with LearnVest.com.

Brewer adds that “even if you can only contribute 1% for now — that won’t get you retirement, but it will get you closer than you are today.”

2. Lack of diversity

Retirement is often called a person’s “golden years,” and rightfully so. A well-planned retirement should give you the freedom and the money you need to pursue your passions and spend some well-earned time with friends and family. But in order to ensure that your “golden years” are just that, it’s important to diversify your savings; that is, don’t rely solely on a 401(k), and certainly don’t rely on Social Security.

A proper retirement savings plan will require a number of different vehicles for your savings. For most workers, a 401(k) will only allow you to save about $17,500 a year, and a traditional or Roth IRA account will only allow you to contribute an additional $5,500. To truly make the most of your retirement, investing some of your savings is a smart idea.

For many millennials, though, the idea of investing can be overwhelming; recent research suggests that one of Gen Y’s biggest financial flaws is that they are an immensely risk-averse generation. Having come of age in the middle of the Great Recession, it makes sense that millennials would favor tried-and-true, low-risk savings options, but the reality is that millennials should invest in a high-growth option now, while they still have plenty of time to ride out the bumps, experts say.

The U.S. Department of Labor adds that diversity is important when it comes to retirement savings because it can actually help to reduce risk and improve return. The DOL notes that it’s also important that you assess your investment mix at different stages in your life; when you are young, a higher-risk investment strategy may be more effective, whereas the closer you are to retirement, the more important a low-risk portfolio may prove.

If you’re unsure of where to start with your retirement investments, it’s best to consult a financial planner who can help map out a strategy that you feel comfortable with, given your personal retirement goals.

3. Not consulting a financial planner

Saving for retirement can be a complicated endeavor, and the rules and regulations are always changing. With something as important and expensive as retirement, it’s a good idea to seek the counsel of someone whose job it is to help you get on track, or to keep you on track, if you’re already in a good position.

Financial planners might seem like an unnecessary expense to some, particularly if you’re on a tight budget, but often a planner can help you “find” money or investment opportunities you didn’t even know were available to you. As a result, consultations are normally worth every penny, despite the up-front expense. Loren Dunton, who is often considered one of the founders of the financial planning movement, says he believes “most people need a planner,” adding that, “the ones who don’t need one are usually smart enough to use one.”

“If you find yourself letting important financial decisions go because you just don’t seem to get around to them, you might want to talk to a financial planner to get those jobs done,” says Gerri Detweiler, a radio host and author of “Slash Your Debt,” who spoke with Bankrate.com.

Often the biggest struggle for those beginning to build their retirement accounts is not having a clear goal or strategy, according to LearnVest.com. Financial planners can help you decide how much money you need to save in order to enjoy your retirement, so you can stop worrying about whether you'll have enough.

5. Not increasing the amount you save in tandem with your increasing income

A common mistake many people make who are just beginning to start saving for retirement is believing that by simply enrolling in an employer-sponsored 401(k), they are saving enough. But the truth is that automatic enrollment usually means that you're only contributing about 3% of your income. That percentage should really be more like 10 or 15 if you are a young worker, or potentially even higher if you really want to get ahead of the game.

Want to know where you stand? Retirement calculators are an incredibly useful tool to make sure you're well on your way to the kind of retirement you envision. According to the U.S. Department of Labor, fewer than half of all Americans have calculated how much they need to save for retirement. Don't be one of the more than 50% who haven't taken a look at the numbers.

If you'd like to earn a significant portion of your current income during retirement, it's important that you increase the amount you save according to the amount you make. That means when you get a raise, you should also be increasing your contributions to your retirement account. Further, the older you get, the more vigilant you need to be about the amount you're saving. Since your income is likely to be at its highest in the years just before you retire, it's important that you make the most of that extra income by saving a little extra if possible.

Brewer says that if you have trouble remembering to increase your contributions, try setting up a monthly, biannual, or annual calendar reminder to notify you when you need to be upping your contributions by another percentage point or two. "You don't want to realize five years before you plan to retire that you're behind on your goal…putting away 10% now will be a lot less painful than putting away 50% later."

6. Sacrificing retirement savings for your kids' college fund

It is absolutely admirable to want to start saving for your kids' college education as early as possible, but don't let a college savings fund impede on your own retirement. In fact, don't touch your retirement savings for anything if you can help it.

It's certainly tempting to sacrifice a check that otherwise would have gone toward retirement savings, but resist the urge to do so. One of the biggest mistakes people make when saving for retirement is abusing their retirement accounts; you really shouldn't touch your 401(k), and neither should you stop contributing or defer increasing your contributions because you want to send your kids to an Ivy League, or private liberal arts college.

"The most important thing you can do for your kids is make sure you're self-sufficient, so you won't have to rely on them in your eighties for financial support," says Judy McNary, a financial planner based in Colorado who spoke with LearnVest. "It pains me when I see parents, whose intentions are awesome, not maximize their retirement opportunities because they want their children to be successful," she adds. McNary notes that she encourages her clients to look for schools that fit within the family's existing budget when looking at colleges. And, if it makes you feel any better, recent studies have suggested that prestigious colleges don't actually do much to increase a graduate's chance of securing a job, meaning that while Junior might prefer the swanky (and expensive) college thousands of miles away, he'll do just fine with a degree from a state school.

According to a 1999 study conducted by two economists, what does matter is your academic performance and the tangible skills you are able to show employers. It turns out that while going to college is important, where you go isn't.

Read more: http://www.cheatsheet.com/personal-finance/the-6-biggest-mistakes-people-make-when-saving-for-retirement-2.html