Stockman Wealth Management

Retirement Timeline

The very first step when planning your retirement saving strategy is, simply, to commit to doing it. Because of the power of compound interest, the earlier you can start loading your accounts with capital, the more you're going to have when you finally call it a career. Of course, a lot changes between your 20s and your 50s—income, family situation, risk preference, and so on—and your investment strategy should change accordingly. Take a look at the following timeline, and start setting yourself up for a comfortable retirement today.

20's to mid 30's

You should start to plant the seeds for an enjoyable retirement in your 20s. Begin by opting into your employer's 401(k) retirement plan. The earlier you start, the better. A 25-year-old who invests $200 per year for eight years can actually end up with more money than a 35-year-old who invests $2,000 per year for the next 32 years. By starting early, you gain substantial interest on your money.

- Develop and stick to a budget that includes emergency and retirement savings goals.
- Set aside 3 to 6 months of personal operating expenses in an emergency savings account.
- Begin saving for retirement when your career starts. Take advantage of any employer matching. You goal should be to get your retirement savings goal to 15% of your income over time (that includes any employer matching). It's ok to start small and build over time.
- Try to live as debt free as possible.

mid 30's to late 40's

As you enter your 40s, retirement planning should become more of a priority because you're getting closer to the finish line. If you have a family, budgeting can be a juggling act, as you've likely got a lot of added expenses. Resist the urge to cut back on your contributions or withdraw funds from your accounts to pay for current household expenses. Doing so puts your golden years at risk, and the tax penalties for early withdrawals are substantial. If you need more money for daily expenses, find other areas in which to trim costs.

Consider the following example: Assume you invest $400 per month in a tax-deferred savings plan, earning 6 percent interest, from the age of 25 to age 45. Then, from age 45 to 55, you reduce this contribution to $200 per month because you need to spend more on groceries. You eventually bump it back up to $400 from age 56 to 65 after you're more comfortable.

It may seem like you only took a small dip in your retirement savings over those 10 years, but in fact, you just decreased your nest egg by almost $100,000. Keep this in mind as you balance your near-term spending with your long-term investment goals.

- Aggressively pay off debt. Your goal should be to have no debt in retirement.
- Continue to build retirement savings as aggressively as possible.
- Got kids? Give serious thought to starting a 529 college savings fund for them. Paying for their university educations completely out of pocket could have a significant impact on your retirement plans.

50 to 60

Now is the time to seriously evaluate your retirement goals. Take a good look at where you are, where you want to be, and how long it's going to take you to get there. The type of life you envision for yourself upon retirement can go a long way toward determining how much money you're going to need. Experts estimate that it takes at least 70 percent of your current income to retire comfortably.

- Begin making catch-up contributions, an extra amount that those over 50 can add to 401(k) and other retirement accounts.
- Check your Social Security statement online every year for earnings accuracy and to learn what your estimated benefits will be.

59.5 years old

- At this age there are no more tax penalties on early withdrawals from employer provided retirement savings plans such as 401(k) plans and other individual retirement accounts, but leaving money in means more time for it to grow. Also, withdrawals will be taxed as regular income.
- Within the next five years it is a good idea to seek a CERTIFIED FINANCIAL PLANNER™ to begin finalizing your planned glide path to retirement.

60 and up

62 years old

- Earliest age to collect Social Security retirement benefits; however, claiming before the full retirement age results in reduced monthly benefits. Seek professional planning help to determine your best Social Security options.

65 years old

- Sign up for Medicare and Medicare Part D.

66-70 years old

- Receive Social Security full benefits depending on your birth year.
- Earn Social Security Delayed Retirement Credits, which increase monthly benefits for each month claiming is delayed between the full retirement age and age 70.

70.5 years old

- Start taking the required minimum distributions from most retirement accounts by this age; otherwise, you may be charged heavy penalties in the future.