When You Haven't Saved Enough for Retirement

Don't panic — but don't ignore the situation either. Instead, follow these six strategies.

By Amelia Granger | May 14, 2013

Amelia Granger is a senior analyst at NerdWallet.com, a national personal finance website, and was formerly a reporter at Institutional Investor.

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This article first appeared on the personal finance site Nerdwallet.com.

You're over 50 – and you're pretty sure you haven't saved enough. Advice on how to sock away money for retirement gives you chills. You try to ignore the problem, but that's getting harder and harder every day. Let's face it: You're in a hole.

But you're in good company. The Employee Benefit Research Institute found that 36 percent of workers do not think they are doing a good job of saving for retirement; 22 percent said they now are going to retire later than planned.

What to do?

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If you have a 401(k), you can start taking control of your financial future by learning how to calculate whether you're putting away enough money. Should you find that you're not or if you don't have a 401(k) and need to amp up your retirement savings, here's what advisers say you should do:

Move Quickly You've had your head in the sand for decades. Once you wake up, start taking responsibility. Lyman Howard, a San Francisco-based financial consultant, said people in their 50s and 60s must hurry and take advantage of the time they have left before retirement.

"Our advice to them is that they must make the best use of the next five to 10 years to make changes that will allow them to accumulate higher savings and reduce debt," Howard said. "So that if they lose the ability to work, they are not locked into a substandard lifestyle for the rest of their lives based on those insufficient savings."

Make Saving a Top Priority When you were younger, 401(k) contributions might have seemed like an optional expense. As you enter middle age, there simply are no more excuses not to save. Even if you plan to work in retirement, you could be facing health care costs that will ramp up quickly.

Financial adviser Alexey Bulankov of Redwood Shores, Calif., said that he tells clients that putting money aside should take priority over all other expenses. "We talk to baby boomers about planning for 'certain things first,'" Bulankov said.

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"Retirement, health care costs, taxes and estate planning are the issues which will almost invariably come up for most of our clients. There is a great degree of uncertainty associated with other obligations," he added. "For example, their kids may opt to pay for their own wedding, work through college or get a scholarship. Their parents may decide to sell their house to pay for their own retirement and so on."

Paying yourself first, Bulankov said, means putting money aside for retirement goals then ensuring that you meet all other obligations, including monthly bills.

Narrow the Gap Add up all the money you might have in retirement, even if it isn't much. Mystic, Conn.-based adviser Robert Henderson said boomers should remember that retirement income comes from more sources than just a 401(k).

"Sometimes boomers overlook certain things such as pensions, accrued stock options or restricted stock awards, Social Security (especially the Social Security spousal benefit) and retiree medical benefits. Instead, they just focus on their nest egg," Henderson said.

Financial advisers and their clients "need to make sure we look at all sources of income and ways to possibly maximize those, perhaps by delaying Social Security, for example," he added. "Sometimes we can narrow the gap a bit by maximizing each of these."

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Prepare for a "Cliff Retirement" If your situation is really bad – if looking around for a forgotten pension or postponing claiming Social Security isn't going to cut it – you need to mentally prepare yourself for a diminished standard of living in retirement.

It's something Bonnie Sewell, a certified financial planner based in Leesburg, Va., finds all too often. "I am seeing clients who are experiencing 'cliff retirements,'" she said. "These are good people who started to save more or spend less too late in life. The effect is that friends and family knew them to be living one way – in one case, on $400,000 per year – but in retirement, these folks will experience going off a cliff in terms of lifestyle. So someone previously living on $400,000 will now have to live on $80,000."

This kind of drastic reduction can result in "an unexpected or unwanted move," Sewell said.

Face the Problem Head-On Preventing a cliff retirement from happening to you can be difficult, but ignoring the problem will only make it worse.

"Changing behavior is hard, but if a person has a target of where he needs to get to, then he can put together a series of incremental, yet achievable, steps to reach the end goal," said Andy Tilp, of Trillium Valley Financial Planning in Sherwood, Ore. "Studies have found that focusing on a small, achievable goal is much more likely to be successful than being overwhelmed by one huge, bodacious goal."

Tilp said the small steps could include things like increasing your 401(k) contribution by 1 percentage point (from say, 5 percent of pay to 6 percent) and then doing that again in a few months — again and again. This way, you'll have time to adjust to the slight decrease in your take-home income.

He also suggests doing a detailed cash flow analysis to identify areas where your day-to-day expenses can be cut.

Don't Panic "Neither panicking nor putting off the matter will solve the problem," said Jason Gerlach, managing director of Sunrise Capital in San Diego. "Boomers should stop what they're currently doing, take a breath, get organized with a full inventory of what they have and sit down with someone who can help them objectively assess their situation."

If you do this and find a shortfall in retirement savings, there are many immediate steps that can and should be taken, said Gerlach, starting with a reduction in your spending, to allow for an increase in the amount you can save.

"It's often psychologically challenging, but cutting spending is the easiest way to get retirement savings back in the right direction and almost everyone can review their expenses and find things that they don't need to be spending money on."

Jason's advice is key: The time to be illogical is over. If you don't have enough savings, you need to begin acting rationally and taking a cold, hard look at the numbers, without letting your emotions take over.

Remind yourself: At the end of the day, it's going to be OK.

Working with a financial adviser can be a huge help. "Look, we can almost always improve someone's situation and not trying seems truly crazy," Sewell said. "Besides, the majority of folks are in the same spot."

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