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Money Matters: Financial planning for late starters

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MATT ROURKE / AP

We all know that planning for our financial future is important, but many of us have done little or none of it. As you put your pencil to paper to begin to develop a plan, remember it is never too late to start whether you are in your 40s,50s, or older. Here are some steps to help you achieve retirement security.

▪ Develop a cash flow plan. Determine if your income exceeds your expenses. If you do not know, then create a written budget that will keep you accountable. The goal should be to spend no more than you earn each year after accounting for taxes, debt repayment, and savings.

▪ Fund your employer-sponsored retirement plans. You can benefit in two ways. First, you can contribute with pre-tax dollars. Second, many employers offer matching contributions ranging from 25% to 100% of what you defer to the plan. You do not want to leave that cash on the table.

Also, if your cash flow permits and you are above the age of 50, do not forget that the IRS allows you to make a catch-up contribution up to $6,000 more than the deferral limit of $18,000 for 2015.

▪ Pay off credit card debt. Pay off your highest interest balances first and then use the money freed up to pay off other debt. By having credit card debt, you are having compound interest work against you.

▪ Save your raises. As you receive raises each year, use them to accelerate your debt repayment or to increase your savings.

▪ Eliminate unnecessary expenses. Review how each dollar spent is being used. We can all reduce our number of trips to the coffee shop or eat one less meal out each week.

▪ Review your insurance policies. Do you have a whole or variable life insurance policy with a substantial monthly or annual premium? First, determine if the policy is necessary. Second, you may want to consider more affordable level-term life insurance.

One caveat, if you decide to surrender a whole or variable life policy for its cash value, then you should review your policy to determine if there are any surrender charges. You will also want to determine if there are any tax implications.

Do you have collision coverage on an older vehicle? If so, you may want to change your policy to liability coverage only to reduce the premium.

▪ Buy used cars. We all know that cars depreciate immediately after you drive them off the lot. You should allow someone else to pay for that initial depreciation. The cars today are built to last longer. You can still get quality used vehicles for much less than what you would pay for a new car. Also, hold onto that car longer, you will end up with more cash in your pocket over the long-term.

▪ Downsize your house. If you sell your house and move to a smaller one, then you can unlock some of the equity to increase your retirement savings. In addition, you may reduce your mortgage payments, utility and maintenance costs, property tax, and insurance premiums.

▪ Vacation at home. The summer trip to the beach or mountains each year can be expensive. You can take day trips to take in the local sites and save on hotel rent, meals at restaurants, and fuel costs.

▪ Consider a second jo. Are there part-time jobs that interest you? They could provide extra income to your household. If so, take one and save that extra income.

▪ Delay retirement and/or work part-time in retirement. It is common perception that we should all retire in our sixties. In 1935 when the Social Security Act was enacted, the average life expectancy was much shorter than it is today. In fact the life expectancy of today's 40 year-olds is into their eighties. Therefore, many of us could spend 20 to 30 years into retirement. In addition, the United States has evolved from an industrial economy to a service economy.

As a result, our bodies have not endured the physical deterioration like those of previous generations. Also, medical care is better, so we should be able to work longer. By delaying full retirement for a few years, you can grow your savings because you will not withdraw cash from your capital and you will be the benefactor of additional compounding.

▪ Evaluate your portfolio. You should not invest all of your savings into money market accounts and certificates of deposit that are earning virtually nothing.

At the same time, you do not want to get greedy and take on too much risk. Your goal should be to be create a diversified investment portfolio that utilizes different asset classes to complement each other, which should provide investment returns that outpace inflation and minimize risk.

If all of this seems daunting to you, then you may want to employ a professional. In order to find a financial planner near you, you can consult the Financial Planning Association's website, www.fpanet.org.

The bottom line is that it is not too late to begin to save for retirement. It is just important that you start now and not put it off for another year.

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