Get There

Retirement mistakes people make at every age

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Retirement security didn't always feel this out of reach.

People worked until their early 60s, earned pensions and collected Social Security. Today, most people expect that they will rely on their own savings, and some worry that Social Security is no longer a sure thing. Workers now need to view the income they earn throughout their careers, which can span 40 years, as money to last them into their 80s and beyond.

People stumble with their retirement savings at all stages of life as competing interests — student loans, the cost of having children, health emergencies and home obligations

— manage to get in the way. But the cost of putting off saving can be dire: Roughly 40 percent of baby boomers and Generation Xers risk running out of money in retirement, according to the Employee Benefit Research Institute.

It's a tricky balancing act, and the mistakes that are more likely to make workers stumble will look different depending on whether a person is fresh out of college or at the tail-end of his career.

20s: Focusing too much on student loan debt

Some young workers may think it's smarter to use their meager paychecks to aggressively pay off student loan debt before they start saving for a phase of their life that's still decades away. But that would mean giving up the biggest advantage they have when it comes to saving for retirement: time. "If you start saving at 22 you need to save half as much on a yearly basis as you would if you started at 32 to get to the same dollar amount," says Scott Holsopple, managing director of retirement solutions at the Mutual Fund Store, a group of investment advisers.

Workers who receive matching contributions from employers should at least save enough of their income to take advantage of that match, says Antwone Harris, a financial planner with Charles Schwab. "That's just free money" that would otherwise be left on the table, Harris says. They should also set the plan to automatically increase the contribution rate by 1 percentage point each year, says Scott Halliwell, a financial planner with USAA, until they are contributing at least 10 percent. If the plan doesn't allow for automatic increases, workers should increase their savings rate every time they get a pay raise, he says.

30s: Cashing in retirement savings to buy a house

After managing to put away a decent sum for their nest eggs, some people may find themselves tempted to use the cash today. Maybe there are children in the picture, creating the need for more space. And some workers may feel like they can afford a house now that their paychecks are bigger — if they could just finish saving up for that down payment. But by using that money now, some people could be setting themselves up to struggle in their later years, advisers say. "They buy an expensive house instead of a comfortable retirement," Halliwell says.

Tax law allows workers to use their retirement savings to buy their first home, further adding to the temptation. The Internal Revenue Service allows penalty-free withdrawals of up to $10,000 from Individual Retirement Accounts for first-time homebuyers. There are similar allowances for 401(k) plans, but the withdrawal would come with a 10 percent penalty or in the form of a loan that would need to be paid back immediately if a person changed jobs.

People who struggled to save for a down payment may have a hard time covering maintenance, taxes and other expenses that arise as a result of home ownership, Halliwell says. And that $10,000 would be worth much more in retirement if it had remained invested where it could grow and compound interest.

40s: Prioritizing the kids' college

The goal here is typically to keep children from taking out loans for college so that they can earn a degree — and the higher pay that comes with it — without being weighed down by debt. But the approach may backfire in the long run if parents are cutting back on their retirement savings to cover those education costs. "As soon as you start decreasing retirement that's going to be a red flag," Holsopple says.

While there are multiple ways to pay for college, there aren't as many options when it comes to paying for retirement, advisers say. Some teens may be able to work to cover expenses while they're in school, Halliwell says. Families can also consider less expensive options, such as state colleges or community colleges that have lower tuition rates than private universities. Plus putting their college education ahead of your retirement now could backfire for both parties. "Eventually they're going to become a burden to their children," he says.

50s: Being unrealistic about what retirement will look like

With retirement roughly a decade away, workers should start managing their expectations for what they will realistically be able to do in retirement. Some people may find that they need to delay it or take on a part-time job because they haven't saved enough. "This is where you start focusing on the trade-offs you're going to face in retirement," Holsopple says. "This is where you start to evaluate your situation."

Advisers say people should start setting up for their post-retirement jobs in their 50s by building a consulting firm or freelance business that may provide more flexibility and added income in retirement. People in their 50s should also be saving as much as they can, even if they have been saving all along, Holsopple says. That includes saving at least 15 percent of pay and making additional catch-up contributions of up to $5,500 that the IRS allows for people age 50 and up.

60s and beyond: Blowing through the money too quickly

Some people mistakenly think that once they stop working their only choice is to draw down on their savings until they run out of money. But pre-retirees and retirees can still make changes that can help their savings last longer. For starters, some people may decide to work a little longer or to take on part-time work so that they can put off the need to tap their retirement savings and can stash more money away. "Just a couple of years of extra work can make a huge difference," Halliwell says.

With life expectancy increasing, retirees should plan on having their savings last another 25 to 30 years, if not more, advisers say. People can boost their income and stretch that money if they keep it invested instead of moving it primarily to cash. Some retirees may invest in a mix of bonds and dividend-paying stocks that can create a stream of income, and some stock exposure may still help boost returns in the long run. "You're still going to be an investor for another 20 years or more in retirement," Holsopple says.

Retirees should also be flexible about how they draw down those savings and stay open to changing their approach if their savings take a hit, says Luke Delorme, research fellow at the American Institute for Economic Research. For instance, someone who withdraws a fixed percentage of savings each year would withdraw less money after a market downturn than someone who takes out a set dollar amount, he says. That could leave them in a better position to recover if the market rebounds because more of their savings would remain invested, he says.

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