A Unique Approach to Retirement Savings

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Have I saved enough for retirement? Am I on the right track? Those are common questions asked of financial advisors. If the answers we give suggest that a future shortfall in retirement savings is likely, one of the next questions we would expect is: *What can I do to catch up?*

Most ways to catch up on retirement savings involve applying at least one of the following core approaches: earn more, spend less or work longer. Simply knowing this might not necessarily inspire you to take meaningful and effective steps.

Saving more money, like other good financial decisions, might be made easier by first having a well thought-out policy in place. A policy is a set of a few simple rules that can help guide decision making over time. If a policy is designed to reflect your goals, beliefs and attitudes, you have a better chance of buying into it and sticking with it when times get tough.

The challenge is that arriving at a good policy is a process that can take some time. However, it can be a worthwhile investment if the policy can simultaneously promote good financial behavior in the face of changing external conditions, and adhere to good financial planning principles.

So if you need to save more money to reach your retirement goals, consider developing your own savings policy statement. What does this look like? Here's an example a married couple might use:

Savings Policy Statement

"Because we wish to enjoy a fulfilling and secure retirement, we will adopt the following savings policy that realistically balances our present lifestyle wishes with our future lifetime financial security."

- We will save 20 percent of every paycheck.
- Our savings will first go to our emergency fund until the account equals three months' worth of living expenses.
- Our savings will then be used to pay off short-term, high interest debt (e.g. credit cards, car loans).
- Our savings will then go into our employer-sponsored retirement plans, but only to the extent needed to maximize company matches.
- Our savings will then go into employer health savings accounts to the maximum allowable level.
- Our savings will then go into Roth IRAs to the maximum contribution limit (if we qualify based on our adjusted gross income).
- Our savings then will go back into our employer-sponsored retirement plans until the contribution limit (including catch-up for over age 50) is reached.

- Thereafter, our savings will be used to pay off long-term, low interest debt (e.g. home mortgage).
- Any remaining savings will go into an after-tax opportunity fund.
- Future raises, bonuses and windfalls will be allocated 10 percent to a fun fund and 90 percent per the preceding policies.

In regards to the last point, it's important to note that it can be much easier to commit to saving future windfalls than making the sacrifice now.

Laying out a prioritized, rules-based savings policy adheres to good (if not perfect) financial planning principles. It also helps manage risk while building tax-diversified assets for retirement. It may also provide motivation to reach the more advanced savings levels, such as maxing out retirement plans or saving in an after-tax opportunity fund.

While strategies and tactics are important, saving for a comfortable retirement is often much more about controlling your own behavior. Consider developing your own policy around retirement savings or work with your financial advisor to help construct one. Giving yourself some simple, yet effective written rules to follow will likely help you reach your goals.

Reference: Policy-Based Financial Planning as Decision Architecture, Yeske/Buie (Journal of Financial Planning – Dec 2014)