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Tips for people behind in retirement savings

Rodney Brooks, USA TODAY *10:18 a.m. EDT March 23, 2015*

Financial planners often tell stories about 50-somethings who come to them for help and have saved little or nothing for their retirement.

There are millions of people like that out there.

"It's really common for people to never plan for retirement," says Nancy Coutu, financial planner with Money Managers Financial Group in Oak Brook, Ill. "They are so busy planning their everyday lives — first they go to college, get a job, then they get married, have kids and buy a house. All of a sudden they are 50-something and it's like, 'holy cow.'"

"I see these 50-somethings all the time," she says. "They say, 'How do we figure this out? We saved a little in a 401(k) and some in an IRA.' But they have no clue how to figure out how much they need for retirement."

According to the Center for Retirement Research at Boston College, the average retirement savings for households nearing retirement — those with head of households aged 55-64 — is about $110,000.

That means more than half of today's households won't have enough retirement income to maintain their pre-retirement standard of living, even if they work to age 65. The center says its survey clearly indicates that "many Americans need to save more and/or work longer."

And according to TIAA-CREF, a financial services organization, less than a quarter of people in its new survey even contribute to an IRA.

So, if you're in this situation, having saved little or nothing for retirement, here are some tips from financial planners to help you get there.

1. Do a budget. Get a plan. "Planning is the first thing," says Coutu. "I tell them in order to see if you've saved enough, we have to first see how much you spend," she says. "Going through expenses is sometimes painful."

Coutu says most people miss badly when they estimate how much their monthly expenses are. "Everybody has this magic number of $4,000 a month," she says. I ask where that number came from. And sometimes (the real number) is several thousand dollars more. They forgot the incidentals. They forget those repairs. They say, 'We don't do something to the house every year,' but I say, 'Yes, you will.' Or they didn't budget for vacations, or gifts they give to their children or grandchildren."

People think about things such as gas bills, electric bills and real estate taxes, Coutu says, but forget to think about what happens if they buy a new car, or that they must pay for their own health insurance, which could cost $1,000 a month.

"Most overspenders have no idea what a monthly budget is," says Rick Foster, president and founder of Guardian Financial Management in Lewisville, Texas. "When I talk to these folks, many don't know how to make a monthly budget. You take a journal or a notebook and for 30 days write down everything you spend. Then we can look and see if there are areas in their lives that can be cut back."

2. Have a plan for Social Security. Kyle O'Dell, president of secure

Wealth Strategies in Denver, says he just did a Social Security seminar with 100 people ages 50 to 65, and not one had done a Social Security analysis. That's a huge mistake, he says.

"Most people think they just need to figure out the age," he says. "For married people there are 587 ways to file for Social Security. You can increase the payout by about 32% if you do it properly."

O'Dell says one study shows that families that did file for Social Security properly will see their other savings and retirement accounts last 5½ years longer. "To get that analysis done, meet with an adviser that has a Social Security analysis tool."

Foster says "overspenders" are the main ones who think they need to take Social Security earlier. But knowing the proper time to file can make a difference of up to $300,000.

3. Sixty-two is not a magic retirement number. "A 50-year-old says, 'I will retire at 63,'" says Coutu. "I ask why. They say, 'Because that's what my parents did. That's when I'm eligible.' It's my job to figure out how they get from where they are today to where they will be at 62 and have an income stream they can't outlive."

"If you do the numbers and find out that you can't retire at 62, you need to do some serious lifestyle adjustments, or work longer," says Coutu. "You can't just retire and maybe run out of money. People look at their 401(k) and it has $500,000 or $1 million. And then we find that it costs them $100,000 (a year) to live. They may live for a long time."

4. Work longer. "I tell people to remember that when they go to retire, they still have time," says Paul Saganey, president of Integrated Financial Partners in Boston. "Instead of looking at retirement as 'I'm 65 and retired, and now I'm in trouble,' look at retirement in a series of five-year increments. And when you break the pie into bite-sized pieces, if they don't have enough today, we can help them make some adjustments. Maybe it's getting them back to the workplace, but they still have time to make their money work for them."

5. Stop paying for your grown children. "Stop putting the needs of kids ahead of their own needs," says Saganey. "Everyone wants to help their children. I still see people in retirement still paying off their children's college loans, even though the kids are doing well. People are still doing things for their children instead of saving for retirement."

"They are very focused on taking care of their kids," says O'Dell.

"They are hurting their retirement by helping their kids out with college. I hear it from families all the time. 'I don't want my kids to have student loans.' I tell them you need to get your financial house in order before you take care of everyone else. Spending too much money on your kids' college education can really impact your retirement down the road."

Other tips:

• If you have a term life insurance policy that is convertible, says Don Cloud of Cloud Financial in Huntsville, Ala., don't let it expire when you can't afford the premiums. Sell it. There are companies that pay the premiums and give you a lump sum (depending on your life expectancy) that could be $35,000 or $40,000 on a $500,000 policy. "You have created wealth based on your mortality."

• Instead of keeping $10,000 in a no-interest savings account, pay off that $3,000 credit card balance charging 18% interest," says Coutu. "Instead of keeping an emergency fund, use your credit card for emergencies."

• Don't think because you are behind in savings that you have to take outsized risks, says Foster. "The myth is if you have waited too long, you have to take bigger risks to catch up."