Transcript -

Episode 5: - How to Build a Retirement Fund from Scratch at Any Age

Today we're diving into a topic that I know is on many of your minds how to build a retirement fund from scratch at any age. Now, I know that the idea of starting a retirement fund can seem overwhelming, especially if you're starting later in life or haven't saved as much as you'd hoped. But here's the good news it's never too late to start, and there are concrete steps you can take to build a solid retirement fund, no matter your age or financial situation. We recently published a blog post on this topic, and today I want to provide a comprehensive overview of that post, add a bit more context and share some personal insights to help you feel confident and empowered to take action. Whether you're in your 20s, 30s, 40s, 50s or even closer to retirement age, this episode is for you. So grab a cup ofs. 30s, 40s, 50s or even closer to retirement age, this episode is for you. So grab a cup of coffee, sit back and let's get started on building that retirement fund from scratch.

Intro: 0:56
Welcome to Low Income Rich Life, the podcast that helps you prepare for a secure and fulfilling retirement, even on a limited income. I'm your host, Kevin Bass. Each week, we'll explore practical tips and strategies for getting out of debt, lowering expenses, living a simpler life and finding true contentment. Whether you're nearing retirement or just starting to plan, join me as we navigate the journey to a brighter future. Let's discover together how to make the most of our golden years without breaking the bank.

Types of Retirement Accounts: 1:26
Let's start by talking about the different types of retirement accounts available to you. Understanding these options is crucial, because each account type offers unique

benefits and rules, and choosing the right one for your situation can make a big difference in how much you are able to save.
First up, we have the traditional IRA or Individual Retirement Account. This is a great option for many people because it allows you to contribute pre-tax income which can reduce your taxable income for the whole year. The money in your traditional IRA grows tax-deferred, which means you won't pay taxes on it until you withdraw it in retirement. This type of account is ideal if you think you'll be in a lower tax bracket when you retire.

Roth IRA: 2:07
Next there's the Roth IRA. The Roth IRA is a bit different, because you contribute after-tax dollars. The benefit here is that your money grows tax-free and qualified withdrawals in retirement are also tax-free. This makes a Roth IRA a great choice if you expect to be in a higher tax bracket when you retire, or if you want the flexibility to withdraw your contributions at any time without penalties.

Then we have 401k plans. These are employer-sponsored retirement plans that allow you to contribute a portion of your salary, pre-tax. One of the best things about a 401k is the potential for employer matching. Essentially, your employer might match a portion of the money you contribute, which is like getting free money for your retirement. If your employer offers a match, it's a good idea to contribute at least enough to get the full match.

SEP and Simple IRAs: 2:56
For those of you who are self-employed or own a small business, there are options like SEP IRAs and Simple IRAs. These accounts have higher contribution limits compared to standard IRAs, which can be particularly advantageous if you want to save more aggressively for retirement. Each of these accounts has its pros and cons, and the right one for you depends on your specific situation. Later in the episode, we'll dive into the advantages and disadvantages of each to help you make the best decision for yourself.
Now that we've covered the basic types of retirement accounts, let's talk about the advantages and disadvantages of each. Understanding these pros and cons can help you make an informed choice about where to put your hard-earned money.

Advantages and Disadvantages: 3:38
Let's start with the traditional IRA. One of the biggest benefits is the immediate tax deduction on your contributions. This reduces your taxable income for the year, which can lower your tax bill. Plus, you get tax-deferred growth on your investments. The downside is that when you withdraw your money in retirement, it's taxed as ordinary income. Additionally, there are required minimum distributions, or RMDs, which means

you must start taking withdrawals at age 72, whether you need the money or not. Then there's the Roth IRA. The biggest benefit of a Roth IRA is tax-free growth and tax-free withdrawals in retirement. There are also no RMDs, which give you more flexibility with your money. Another advantage is that you can withdraw your contributions, but not the earnings, at any time without penalties. The main downside to a Roth IRA is that contributions are made with after-tax dollars, so there's no immediate tax benefit. Also, there are income limits that might prevent high earners from contributing directly to a Roth IRA.

Speaker 1: 4:41

401k plans come next. These plans allow for higher contribution limits than IRAs and you can benefit from employer matching, which is essentially free money. Your contributions are also tax deferred, which reduces your taxable income. As far as disadvantages go, the investment options can be limited depending on your employer's plan and, like the traditional IRA, 401k withdrawals in retirement are taxed as ordinary income. There are also RMDs starting at age 72. Finally, let's talk about SEPs and simple IRAs. These plans are great for self-employed individuals because they allow for higher contributions. They're also relatively simple to set up and maintain. As far as disadvantages, with a SEP IRA, contributions are not allowed after age 70 and a half, and with a simple IRA, there are mandatory employer contributions, which might not be ideal for every business. Each account type has its unique benefits and drawbacks, and it's important to choose the one that aligns best with your retirement goals and your financial situation.

Join Our Facebook Group: 5:50

Hey there, listeners. Are you looking for a supportive community where you can learn more about preparing for retirement on a low income? If so, I've got just the place for you. I'd love for you to join our Facebook group, low Income Rich Life. It's a space where we share practical tips, resources and experiences to help each other navigate the challenges of retirement planning on a budget. Whether you're just starting to think about retirement or you're well on your way, our group is filled with folks just like you, all working towards the same goal a secure and fulfilling retirement without breaking the bank. To join, simply head over to lowincomerichlife.com/JoinTheGroup that's lowincomerichlife.com/JoinTheGroup. I can't wait to see you there and hear your story.

Step by Step Guide: 6:53

So, now that we have a better understanding of the different types of retirement accounts, let's go over a step-by-step guide to building a retirement fund from scratch. This is especially important if you're just starting out or if you've had to start over due to life circumstances.

Step one is going to be assess your current financial situation. This means taking a close look at your income, expenses, your debts and any existing savings. Knowing where you stand financially is the first step in creating a realistic retirement plan. Make a detailed budget that tracks all your income and expenses and identify areas where you can cut back or allocate more money towards savings. Step two is to set clear retirement goals. Determine how much you need to save for retirement. Think about factors such as your desired retirement age, the lifestyle you want to maintain, expected health care costs, inflation and how long you might live. There are many online calculators available that can help you get a rough estimate of how much you need to save. Break down this goal into smaller, more manageable milestones, like saving a certain amount by age 40, 50, and so on.

Step three is choose the right retirement accounts Based on what we discussed earlier. Select the retirement accounts that best fit your goals and situation. For many people, a mix of a Roth IRA and a 401k provides a good balance of tax benefits. If you're self-employed, a SEP or simple IRA might be the way to go. Step four start saving early and consistently. The earlier you start saving, the better, thanks to the power of compound interest. But even if you're starting later, don't get discouraged. The key is consistency. Set up automatic contributions to your retirement accounts to make saving a habit. Even small amounts can grow significantly over time. Step five is maximize employer contributions. If you have a 401k with your employer matching, contribute at least enough to get the full match. This is essentially free money that can boost your retirement savings. For example, if your employer matches 50% of your contributions up to 5% of your salary, make sure to contribute at least 5% to take full advantage of this benefit.

Step 6. Diversify your investments. Make sure to diversify your investments across different asset classes like stocks, bonds and real estate. Diversification helps manage risk and improve potential returns. Diversification helps manage risk and improve potential returns. If you're not sure how to diversify, consider investing in low-cost index funds or target date funds that automatically adjust the asset allocation as you get closer to retirement. And lastly, step seven is reassess and adjust your plan regularly. Life changes, and so should your retirement plan. Make sure to review your plan regularly and make adjustments as needed to stay on track with your goals. Consider consulting with a financial advisor annually to review your progress and make adjustments as needed. By following these steps, you'll be well on your way to building a solid retirement fund from scratch, no matter your starting point.

Maximizing Retirement Savings: 9:39
Now that we've gone over the steps to start building your retirement fund, let's talk about some tips for maximizing your retirement savings. Whether you're just starting out or looking to boost your existing savings, these strategies can help you make the most of your efforts. Tip number one is take advantage of catch-up contributions. If you're 50 or older, you're eligible to make catch-up contributions to your 401k and IRA accounts. This can significantly increase the amount you're able to save each year. For example, in 2024, the standard contribution limit for a 401k is $22,500. But if you're 50 or older, you can contribute an additional $7,500, bringing your total to $30,000. Similarly, for IRAs, the catch-up contribution is an extra $1,000 on top of the standard $6,500 limit. These extra contributions can make a big difference, especially if you're starting your savings later in life.

Tip number two is automate your savings. One of the best ways to ensure you're consistently saving for retirement is to automate your contributions. Set up automatic transfers from your checking account to your retirement accounts. This way, you won't have to think about it each month and you'll be less tempted to spend the money elsewhere. Treat your retirement contributions like a regular bill that has to be paid each month. Even better, if your employer allows paycheck withdrawals, then that's even the best way to set up automation.

Tip 3. Reduce debt and lower expenses. Reducing your debt load and lowering your monthly expenses can free up more money to contribute to your retirement fund. Start by focusing on paying off high-interest debt like credit card balances, which can eat away at your savings. Once your high-interest debt is under control, look for other ways to lower your expenses, such as refinancing a mortgage, cutting back on dining out or finding more affordable entertainment options. Tip 4 is to increase your savings gradually. If you can't afford to save a lot initially, don't worry. Start small and increase your savings rate gradually over time. For instance, you can increase your contribution by 1% each year or every time you get a raise. These small incremental increases will add up over time and help you reach your retirement goals without feeling like you're making a huge sacrifice all at once.

That brings us to tip 5, which is utilizing tax-efficient investment strategies. Consider investing in tax-efficient funds and understand the tax implications of your investments. For example, holding dividend-paying stocks or high-yield bonds in a tax-diverted account like a traditional IRA or 401k can help reduce your current tax burden while maximizing your investment growth. This approach can be particularly beneficial if you're in a higher tax bracket now but expect to be in a lower bracket in retirement. Tip six is to rebalance your portfolio regularly. Over time, your investments may shift away from your target asset allocation due to market performance. Rebalancing your portfolio at least once a year can help maintain the desired level of risk and ensure that your investments remain aligned with your retirement goals. Consider consulting a financial advisor to determine the best strategy for rebalancing your specific portfolio. By incorporating these tips into your retirement savings strategy, you can make the most out of every dollar you save and help ensure a more comfortable retirement.

Starting Late: 12:53
Okay, for those of you who are starting your retirement savings journey later in life don't be discouraged. I'm right here with you. There are still plenty of steps you can take to build a solid retirement fund, and here are some specific considerations for us late starters. Focus on catch-up contributions. If you're over 50, catch-up contributions to your retirement accounts can be a game changer, as we mentioned earlier, these extra contributions allow you to save more each year and they're a great way to accelerate your savings in the years leading up to retirement. You can also maximize employer contributions. If you're still working and your employer offers a 401k with matching contributions, make sure you're contributing enough to get the full match. This is essentially free money that can help boost your retirement savings significantly. Don't leave this benefit on the table.

You could consider working longer. While it might not be everyone's first choice, working a few extra years can provide significant financial benefits. Not only does it give you more time to save, but it also means you can delay drawing from your retirement accounts, allowing them more time to grow. Additionally, working longer can increase your Social Security benefits, especially if you wait until full retirement age or later to start collecting.
Consider downsizing your home or moving into a lower cost area to reduce your living expenses. This can free up more money to contribute to your retirement savings and help make your nest egg last longer. Also, you can look for ways to cut back on discretionary spending, such as dining out, travel or subscription services. Lastly, if you're unsure about where to start or how to catch up, consider speaking with a financial advisor. They can help you create a personalized plan based on your unique situation and retirement goals, ensuring you're on the right path to achieving financial security. Remember, it's never too late to start saving for retirement. Every dollar you save and invest now can help provide more financial security down the road.
Health Savings Accounts (HSA): 14:46
Before we wrap up today, I want to briefly mention the role that health savings accounts, or HSAs, can play in your retirement planning. If you're enrolled in a high-deductible

health plan, an HSA can be a fantastic tool, not just for current medical expenses, but also for retirement savings. First of all, there's a triple tax benefit to HSAs Contributions are tax-deductible, the funds grow tax-free and withdrawals for qualified medical expenses are also tax-free. This makes HSAs one of the most tax-efficient savings vehicles available. In retirement, health care costs can be a significant expense and an HSA allows you to save specifically for these costs and if you don't need the funds immediately, you can let the money grow tax-free For those who are healthy. Now paying for medical expenses out of pocket and letting the HSA funds grow can maximize their potential. After age 65, you can use HSA funds for any purpose without penalty, though non-medical withdrawals are subject to ordinary income tax. This feature makes HSAs similar to a traditional IRA or 401k, but with the added flexibility of tax-free medical withdrawals. For more detailed information on using HSAs as part of your retirement strategy, be sure to check out our blog post that's dedicated entirely to HSAs. I'll leave a link to that post in the show notes.

Incorporating HSAs into your retirement plan can provide an additional layer of security, especially when planning for health care expenses in retirement. So, to sum it all up, building a retirement fund from scratch is entirely possible at any age. It requires understanding your options, setting clear goals, making consistent contributions and maximizing every opportunity to save and invest wisely. If you found today's episode helpful, be sure to check out our detailed blog post on building a retirement fund from scratch for more information and to be able to dive deeper into our resources. You can find that post at lowincomerichlife.com

Your Thoughts and Questions: 16:46

I'd love to hear your thoughts or questions on this topic, so feel free to reach out to me on social media or join our Facebook group. You can find us at lowincomerichlife.com/jointhegroup. That's where we discuss all things retirement and personal finance. Thank you for joining us on this episode of low income rich life. I hope you found today's tips and strategies helpful. If you enjoyed the show, please subscribe, rate and leave us a review on your favorite podcast platform. Your feedback helps us reach more listeners and improve the content we bring to you. Don't forget to visit our website at lowincomerichlife.com for additional resources, show notes and links to everything we discussed today. You can also join me on our Facebook page for more updates and retirement tips. Remember, a truly rich life is not about how you spend your money, but how you spend your time. I'm Kevin Bass, wishing you a prosperous and joyful retirement journey.

Stay well and stay inspired.