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Often-ignored tips to help boost retirement readiness

Much has been made of the new "fiduciary standard" rule handed down by the Department of Labor last week.

This regulation promises to lower expenses paid by some investors in retirement accounts, and that could help plenty of people. But some observers view this as a modest change in the greater scheme of things.

Lower fees are overshadowed by other strategies and tactics retirement-focused investors can take on their own -- steps many people routinely ignore, said Tom Kmak, CEO of Fiduciary Benchmarks, a Scottsdale, Ariz., financial-research company focused on retirement issues. Kmak examined six key factors and ranked them in importance.

Specifically, he looked at how modest changes in these factors would affect the retirement readiness of a hypothetical 42-year-old woman.

1 - Delaying Social Security

The one key step for enhancing long-term retirement "readiness" would be to delay Social Security benefits, Kmak said. The longer you wait, the higher your monthly benefits will be when you start collecting. He urges people to defer Social Security until full retirement age (66 or 67 for most people now in the workforce). Even higher benefits await those who delay until 70. Instead, most people start collecting lower benefits when they're younger, often as early as 62.

Kmak considers delaying the best single step people can take to enhance their financial readiness.

2 - Starting earlier

The second most powerful action would be to start saving at an earlier age. The hypothetical woman in his example who contributes 6% of her pay to a 401(k) would have about $286,000 by age 67 if she began investing at 42. But if she started at 34, her account would swell to nearly $556,000. This example assumes she earns an average 7.1% return and that her employer matches half the 6% she socks away.

Starting early allows investors to tap into the powerful effects of compounding, or earning interest on interest. Kmak suggests that investors strive to save at least 10% from each paycheck.
And people who begin in their 20s would be in much better shape.

3 - Boosting returns

Selecting more powerful and appropriate investments is next for retirement impact. Kmak assumed the woman in his example could generate an average annual return of 7.1%. If she raised that to an 8.5% return, her account would swell from about $286,000 to $347,000 by age 67. Boosting your expected return by one-fifth isn't out of the question, but it does require taking more risks.

Specifically, that means building a diversified portfolio with stocks or stock funds, especially for young adults but even for people at later ages. Keeping too much in conservative, low-yielding assets offsets much of the benefits of saving regularly and starting early. "If you have it all in money-market funds ... good luck with that," Kmak said. "Low returns put pressure on the savings side of the equation."

4 - Saving more
The amount you actually invest does matter. Kmak looked at changing this behavior by one-fifth, raising the 6% contribution rate in his 401(k) example to 7.2%. This action alone would boost the woman's baseline savings at age 67 from $286,000 to around $324,000. Most people do earn more over time, so boosting the savings rate is feasible.

5 - Raising the match
Employees also will fare better if companies offer more money in matching funds. The problem is investors have no control over this. According to research by the PSCA, a 50% match on the first 6% of pay is the most common formula. In Kmak's example, boosting the match by one-fifth from 5% to 6% would help his hypothetical employee go from $286,000 in savings by age 67 to $305,000.

6 - Reducing fees
One key takeaway from Kmak's presentation is that modest fee reductions don't matter all that much. In his example, he cut annual fees by about one-fifth (from 0.72% annually to 0.58%), yet that saved less than $6,000 for his hypothetical investor by age 67.

"Fees have to be reasonable," Kmak said. But they also should be considered in the context of the services provided. The new fiduciary standard rule likely will help many workers, but not as much as other actions they can take on their own, he said.

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