10 Big Retirement Obstacles You Can Overcome

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Obstacle #1: No room in the budget to save

- A modest contribution to a 401(k) or other retirement savings plan will add up. Be sure to contribute at whatever level you can.
- ERISA law requires employers to offer an opt out program, which really did employees a favor. No employee should opt out of a 401K program. It is the best forced savings program available for employees of large companies.
- Most companies provide an employee match. Employee goals should be to contribute at least up to the employer match percentage. Employees should not leave free money on table.
- Consider the differences between regular and Roth 401Ks.

Obstacle #2 Your employer doesn't offer a 401K or you are self-employed

- Other savings options are available.
- Traditional IRA: You can fund your own IRA and deduct up to $7,000 annually + $1,000 catch-up contribution if you are age 50+ No maximum salary limitation.
- Roth IRA: You can contribute $7,000 annually + $1,000 catch-up contribution if you are age 50+ if your salary is $146,000 or less.
- Solo 401K: Selective deferrals up to $23,000 + $7,500 catch-up contribution if you are age 50+. Employers can contribute up to 20% of your net employment income for a combined total of $76,500.

Obstacle #2 Your employer doesn’t offer a 401K or you are self-employed-continued

- SEP IRA: In 2024 self-employed workers can contribute the lesser of 20% of net income or $69,000 to a SEP-IRA.
- SEP IRAs generally have fewer administrative requirements than do solo 401K plans.
- SEP IRAs require you to contribute an equal percentage of salary to all eligible employees.
- SEP IRAs are traditionally pre-tax vehicles, but Roth SEP IRAs are becoming available.

Obstacle #3: Student Loan Payments

- Student Loan debt will stick with you. Next to impossible to discharge in bankruptcy, and will wreck your credit rating if you default on payments.
- If payments are burdensome, check to see if your employer offers repayment benefits including tuition assistance.
- Temporary tax-free benefit of $5,250 on student loan benefits expired in 2025. Three year pause on federal student loan payments ended in October 2023.
- Standard repayment period is 10 years.
- Income Driven repayment (IDR) plan is available with flexible payments based on loan forgiveness.

Obstacle #3: Student Loan Payments continued.

- Contributing to a 401K or other retirement plan could help you qualify for a lower payment with an IDR plan.

Obstacle #4: Changing Jobs

- Workers between ages 18 and 24 change jobs an average of 5.7 times in their lifetime.
- Workers between ages 25 and 34 change jobs an average of 2.4 times in their lifetime.
- When switching jobs, you may be able to leave your existing plan with your previous employer or roll it over into a plan with your new employer. Check with your HR office if you have one.
- Borrowing from your 401K: If you have an urgent need for funds in the short term, you can take what is effectively an interest-free loan from your 401K account by withdrawing the money, depositing it in your bank account, and redepositing the funds into an IRA or other tax-deferred account within 60 days.

Obstacle #5: No Money for Emergencies

- Hardship Withdrawal: plan participants can take a withdrawal from their plan to meet “an immediate and heavy financial need,” which includes medical expenses, preventing foreclosure or eviction, tuition payments, funeral expenses, and expenses and losses related to a natural disaster.
- Depending on your plan, you may also be allowed to take a hardship withdrawal to purchase your primary home.
- When you take a hardship withdrawal, you don’t have to repay the money. But, you can’t put the money back later either.

Obstacle #5: No Money for Emergencies- Continued

- 401(k) loan: borrow as much as 50% of your savings, up to a maximum of $50,000 over a 12-month period.
- Plans typically charge interest of one to two percentage points above the prime rate, which is currently 8.5%.
- Unlike a hardship withdrawal, a 401(k) loan comes without restrictions on how you can use the money.
- Risks: If you leave your job, you must repay the loan by the due date for your tax return (plus extensions) in the year you depart the job to avoid taxes and possible penalties.

OBSTACLE #6: The rising cost of child care

- Cost of day care has grown exponentially in recent years.
- Average family spends 27% of household income on childcare
- Flexible Spending Account (FSA): Most large employers offer this benefit, which allows employees to make annual pretax contributions of up to $5,000.
- Funds can be used to pay for care of children age 13 or younger if both spouses are working.
- Can also be used to pay for adult dependent care.
- Funds are pretax and also avoid social security & Medicare taxes.

OBSTACLE #6: The rising cost of child-care continued

- Tax credits for dependent children: Available to Medicare pay for care of children age 13 or younger.
- Tax credits also can be used for elder care
- Check if your employer subsidizes child-care costs or offers affordable on-site day care.

OBSTACLE #7: College costs

- 529 college-savings plan: offers tax-free investment growth and no taxes on withdrawals if you use the proceeds for qualified higher education expenses.
- 529 college-savings plan can provide a state tax deduction or credit on contributions if you use your own state's plan.
- Consider other alternative such as scholarships and high school advanced placement courses that will allow your child to earn college credits, and can shorten time required (and tuition dollars) for college graduation.

OBSTACLE #8: Health care costs

- Health Savings Accounts (H-S-A): Contributions to an HSA are pretax (or tax-deductible if not provided by employer). Can invest portion of contributions in bond or equity funds.
- Health Savings Accounts (H-S-A) contributions: contribute up to $4,150 to an HSA for an individual health insurance plan or as much as $8,300 for family plan. If 55 or older, you can add an extra $1,000 in catch-up contributions.
- High-deductible plan requirement: you must be enrolled in a high-deductible healthcare plan to qualify for an H-S-A.
- Withdrawal eligibility: Funds grow tax-free, and withdrawals are tax-free as long as the money is used for eligible health care expenses. At age 65, you can take penalty-free withdrawals from your HSA for non-medical expenses, although you’ll have to pay income taxes on the money.

OBSTACLE#9: Caregiving

- More than half of employees identify as caregivers, according to a recent Bank of America survey, including 57% of women.
- Check Caregiving benefits provided by your employer: Nearly 90% of employers offer some kind of caregiving support, only 41% of employees know about the programs, and less than one-third of working caregivers take advantage of them.
- Check personal benefits available if, as a caregiver, you believe that you have no choice but to leave your job.
- Roth IRA: If your spouse has earned income, he or she can contribute up to $7,000 (plus $1,000 in catch-up contributions if you’re 50 or older) for 2024 to a traditional or Roth IRA on your behalf.

OBSTACLE#9: Caregiving

- Spousal 401K: If your spouse is covered by a 401(k) or other workplace plan, contributions to a traditional spousal IRA are deductible as long as your joint adjusted gross income is less than $230,00

OBSTACLE #10: Running out of time to save

- Not unusual for workers to reach their fifties and realize they haven't saved enough to retire as early as they had planned. If you are among them, seek to supercharge your savings using one of the following strategies.
- 401(k), 403(b) catch-up: workers 50 and older can contribute up to $30,500 in their retirement plan — $23,000 plus $7,500 in catch-up contributions.
- Traditional or Roth IRA catch-up: Invest up to $8,000 in 2024 — $7,000 plus $1,000 in catch-up contributions.
- Working longer if you have to can also make your savings last.