

## 7 Things You Can Do Today to Prepare for Retirement

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Confession time: I didn't start planning my retirement when I was young. I didn't give it much thought, because when you're in your 20s, retirement seems like something you can worry about much later.



Photo by [pedrosimoes7](#)

Sure, you hear advice about how it's much better to start early, and compound interest and all that — it makes sense, but it doesn't seem as urgent as making that car payment.

Now in my mid-30s, though, retirement is a very real issue. I know it's not too late to start planning, so just in the last couple of years I started seriously thinking about what I need to do, and how to get started.

Now, if you are someone with your retirement plans all set and ready to go, this article will be way too basic for you. Skip it. This is aimed at people like myself who never really gave retirement a thought. It's aimed at people in their 20s who really should start now and can do so with some simple steps. It's aimed at people in their 30s and 40s who need to start now (although it's not too late).

You can do these things today, without too much effort. Read up on them, make a call, get started!

- 1. Max Out Your 401(k).** Probably the easiest and best thing you can do to get your retirement plan going. It's easy, especially if you are an employee, as you are probably already enrolled in a 401(k). All you have to do is fill out a form to increase it to the maximum contribution. And if your employer matches a certain percentage of your contributions, that's free money right off the bat. Best of all, you get tax breaks up front on your 401(k) contributions, saving you a ton of money.
- 2. Start now.** Even if you're really late in getting started (as I was), it's important to start right away. Even if it's just a little at a time. Yes, we're talking about the magic of compound interest, which means that if you start now with a small contribution, it's better than starting later with a larger contribution. Make your money work for you. Even if you just cut out a few small expenses, and used that savings to start investing in retirement, it makes a big difference. And starting small has another benefit: as you watch your investments grow, you become motivated by your success to invest even more.
- 3. Track your earnings.** You don't have to check stock prices every day, or anything, but simply checking on your 401(k) and other investments once a year or every 6 months will do wonders. Check on your earnings, and use online calculators to see if you're on track. If not, you can make adjustments, such as increasing your contributions.
- 4. Roth IRA (or other secondary investment).** It's best to have multiple investments, instead of just 401(k), which might not be sufficient for your retirement needs. Probably the best secondary investment for most people is

the Roth IRA, if you're eligible for it (and most of us are). I won't get into the details of it (read the [Wikipedia article](#) for more), but the main point is they are structured to save you on taxes. There are [maximum limits](#) for contributions which change each year (\$4,000 in 2007 and \$5,000 in 2008), and if you can contribute the maximum, you should.

**5. Life insurance.** This isn't really necessary for retirement, of course, but is more of a safety net for your family. Why should you worry about it (if you have a spouse or children)? Because it gives you that financial security needed to invest your money for retirement. The next two items are for the same reason.

**6. Disability insurance.** If tragedy strikes and you're not able to work, what happens to your retirement contributions? Well, they go down the drain if you don't have disability insurance. Get insurance that covers 60% of your current income to be safe.

**7. Emergency fund.** The recommended 3-6 months of expenses for an emergency fund is a good guideline, but if you don't have any emergency fund, you should save up at least \$1,000 (to start with). Without an emergency fund, you will cut off your retirement contributions anytime an emergency comes up. You absolutely need to start saving an emergency fund today if you want to prepare for retirement. Set up regular transfers to a savings account today.

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