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How 'Super Savers' take retirement to the next level

NEW YORK | BY CHRIS TAYLOR

A man soaks his feet in a fountain while reading a magazine on the Rose Kennedy Greenway on a warm summer afternoon in Boston, Massachusetts July 19, 2011.
REUTERS/BRIAN SNYDER

You have been saving 10 or 15 percent of your income, every single year. You have paid off your student loans, and avoided debt. You are on track for a dream retirement - right?

Er, not so fast.

First of all, sit down for a minute. Because, according to some retirement experts, even a healthy 15 percent savings rate may not be enough.

"Fifteen percent is just the beginning of reality," says Laurence Siegel, research director at the CFA Institute Research Foundation in Charlottesville, Virginia. "If the markets perform well, then you'll have enough in retirement. If they don't, then you won't."

So how much should we really be aiming for, if we do not want to worry about a cat-food future? Try 20, 25, even 30 percent, advises Siegel.

"These days, our savings from 35 years of work have to cover us for 80 years of life," Siegel says. "If you want to guarantee results, you have to plan for real returns of zero. And that means you have to save around 30 percent."

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Now, before you throw yourself off a bridge, two things.

First, you can certainly look to asset classes like equities to achieve higher returns, Siegel says - as long as you have a backup plan if the market tanks. That might mean slashing your living expenses, bunking with your kids, even moving abroad if necessary.

Second, as daunting as 20 or 25 or 30 percent sounds, there are actually people who manage to save that much of their income. They even have a name, bestowed by money managers Fidelity Investments in a recent report: "Super Savers".

Fidelity's findings show 13 percent of people are saving 20 percent or more of their income for retirement. Even millennials just starting their careers are not doing badly, with 7 percent saving 20 percent or more, and 19 percent saving at least 15 percent.

"We were surprised when we started looking through the data," says Meghan Murphy, Fidelity's director of workplace thought leadership. "These Super Savers are doing exactly what we would want them to be doing."

So, the million-dollar question: How exactly are they pulling this off?

Just ask Rose Swanger of Knoxville, Tennessee. Swanger is a Super Saver, who credits a combination of her cultural background - "most Chinese are Super Savers," she says - and hardcore investing discipline.

That is because instead of waiting until the end of the year (or even April 15 of the following year) to contribute to her Roth Individual Retirement Account (IRA), as many people do, she contributes the full yearly amount as soon as the calendar hits January. Only after that does she start calculating her annual budget.

"I put my money where my mouth is," says Swanger, who is a financial planner.

INVESTING ON AUTOPILOT

Swanger also makes sure to max out her 401(k), too. The key lesson is to have money deducted from your paycheck before you even see it, because the natural human tendency is to blow any funds we get our grubby hands on.

Fidelity's Murphy even suggests going a step beyond that, by participating in the automatic-escalation programs that are becoming more popular within workplace 401(k)s. Every year your savings rate gets bumped up by a percent or two, such a subtle boost that you barely notice the difference. A few years go by, and you could very well find yourself at 15 or 20 or 25 percent.

Just remember that the majority of such programs require you to actively enroll, advises Murphy. So take the initiative, seek out your corporate human resources department and sign up.

If you are a freelancer or independent contractor, you will have to be extra disciplined to reach such a Super Saver status. Saving 20 percent or more "isn't so hard when you have the right institutional support," says CFA Institute's Siegel - like automatic enrollment, employer matches and escalating contributions. But without that kind of built-in encouragement, you will have to be ruthless with yourself.

One helpful tip from financial planner Andrew Tate of Minneapolis, Minneapolis: Put away a large percentage of so-called "found money," or any cash that comes in unexpectedly. That might include gifts, tax refunds, last-minute assignments, or any other windfall that is not part of your normal monthly budgeting.

As a society, we are obviously not at Super Saver levels yet: The national average is 8.2 percent, according to Fidelity's findings.

(Editing by Lauren Young and Diane Craft)