Winning the retirement game

How much money should you save to have an income of €25,000 a year in retirement? Take a guess. Most people's estimates are quite far off, so it's worth facing the savings game head-on

Source: Shutterstock

The decision to save for retirement influences our wellbeing and happiness significantly as we age. Because we can go on for many years without making any changes to how much we save, this decision becomes all the more important. Research shows the inertia is so powerful; we don't change our habits even after global events such as the financial crisis.

To aid our emotional, overconfident and sometimes distracted approach to retirement – here is a cheat sheet of behavioural hurdles that can be particularly problematic when it comes to creating a healthy nest egg.

1 Don't play too confident

We tend to be optimistic and overconfident about managing our money. When estimating what we need to ensure financial well-being, we're often off the mark (by quite a bit) According to one study, 34% of millennials believe they would need $200,000 to live comfortably after retiring. While in reality, to live on $40,000 per year for 30 years, you roughly need $1.18 million.

To tackle this overconfidence, a fresh set of eyes from someone without skin in the game can bring us closer to the mark. Also, try targeting a range rather than a single value because this gives you more flexibility and you're less likely to feel you've failed if you don't reach a specific number.

2 Keep your mind on the game

When faced with complex or important decisions, such as planning for retirement, it can feel as if all of our mental energy is being zapped and having a lot on your mind can be distracting and often results in sub-optimal choices. In an overloaded state, we tend to pick the simplest or default option, which might mean favouring a small return over a larger yield in the future.

So before making any rash decisions, give yourself time to think things through and save yourself from unintended outcomes.

3 Play your style

A preference for choosing round numbers can mean we can often pick arbitrary salary percentages to contribute to our retirement fund simply because the number is easy to remember or it sounds good at the time.

For example, a new graduate who chooses to contribute 5% of his earnings rather than 8% can have a difference in retirement savings of almost 60%, 40 years down the line, which can mean life-altering consequences.

4 Blow the whistle

It's only natural to give priority to what we're doing right now.

However, putting off planning for the future can cause inconvenience and financial loss down the track. Consciously making a retirement plan can be useful if this is a job that falls into the list of things to do tomorrow. Start early to maximise the benefits of a compounding savings pool.

5 Don't get caught by the rules

The rules of saving for retirement require us to be forward-looking and give up spending now (because of present bias) so that we can spend later, but an aggressive retirement savings plan that eats up into our day to day spending can feel unfair.

Setting realistic goals and signing up for automatic contributions can help because you don't have to remind yourself constantly, it happens anyway.

6 Recruit only when needed

We are social creatures, and other people's actions have a strong effect on our behaviour. Trying to fit in with a generally accepted idea (even subconsciously) can result in herd behaviour, even when it's not optimal.

Research shows that some people end up saving less when they find out how much more their peers save because of the upward social comparison. So, how one person approaches retirement may be very different from what is best for you.

7 Last the distance

Lastly, accumulating for retirement is a long-term and largely inactive process. However, setting up your nest effectively can mean a much better quality of life in your golden years. It might be useful to assess your contributions every now and make necessary changes if required.

The savings game is a marathon event, not a sprint, so play your best strategy.

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