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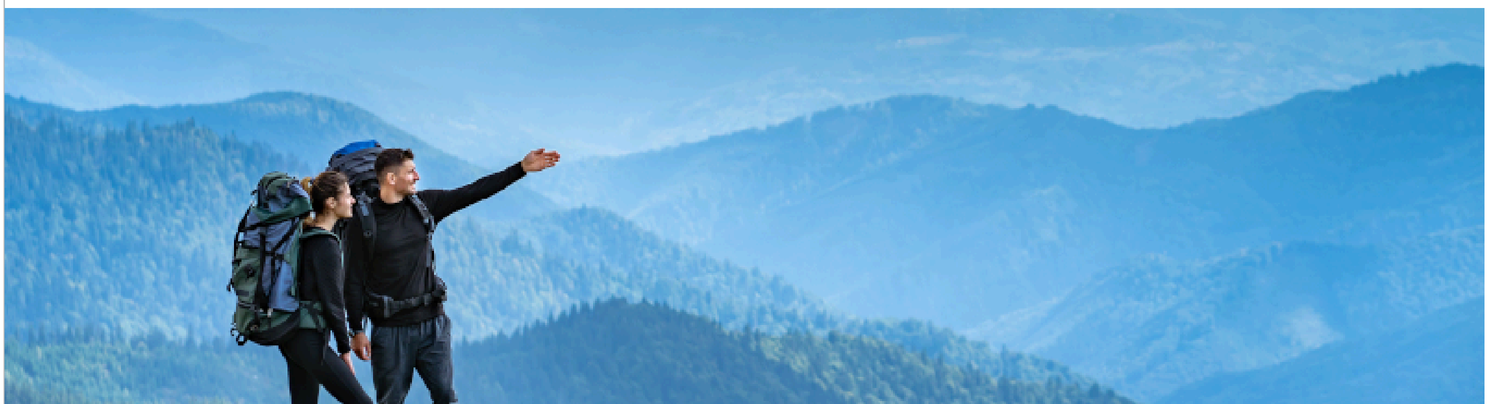
Retirement savings mistakes young people make

These 10 common blunders could take you off track.

Fidelity Smart Money



Key takeaways

> Saving for retirement looks different for everyone, but waiting too long to start and not contributing enough to get any employer match could hurt any saver.
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> Leaving money in cash or investing too conservatively when you have time on your side to recover from market downturns could hinder growth too.
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> Employer-sponsored retirement accounts aren't the only way to invest for the future. There are also individual retirement accounts (IRAs), health savings accounts (HSAs), and taxable brokerage accounts.

According to Fidelity's 2024 State of Retirement Planning Study, Gen Z started planning for retirement at 20 but wish they had started at 17, while millennials started at 27 but wish they had started at 22. Want to plan a future without savings regrets? You might be able to if you start saving for retirement ASAP—and avoid these 9 other retirement savings mistakes. (No worries if you already made one of the following blunders. There's help to counteract them.)

Feedback

1. Not starting to save for retirement sooner

Maybe you want to start ASAP but feel you can't, given other obligations like rent, student loan debt, credit card debt, or child support payments. Obviously, you've got to pay your rent, but not all debts make sense to pay off ASAP. The general guideline is if the interest rate on your debt is 6% or greater, prioritize paying down that debt. But if it's lower than 6%, make the minimum monthly payment and consider investing at least some of your money. That's because you might make more investing in the market over time than you'd lose in interest accumulating on a lower-rate loan. Here's how to balance debt payoff with saving.

2. Overlooking an employer 401(k) match or other account contributions when evaluating job offers

When you're mulling over whether or not to take a new job, consider more than just the obvious factors, like salary and paid time off. Factor in whether the company offers a defined contribution plan, like a 401(k), which allows you to set aside pre-tax dollars for retirement—and whether they match your contributions with contributions of their own. Those matches are like free money, so the more your company contributes, the more your retirement savings could potentially grow. Look at vesting schedules too, aka how long you have to be at the company before you can keep employer contributions. (Luckily, anything you contribute on your own always belongs to you.) Also check to see if your employer offers and matches contributions to other accounts like health savings or emergency savings accounts. This could all go toward savings for your future as well.

3. Contributing too little to your retirement account

There's more to know about matches: If your employer offers to match your contributions to your 401(k) or another retirement plan and you don't capture every dollar of that match, you're leaving money on the table. That's why Fidelity believes you should contribute at least enough to your employer's plan to receive the full match.

As you get raises over time, work up to saving more until you're contributing 15% of your pre-tax salary (including your employer's contributions). If you can't swing the 15%, figure out what you can afford and contribute that amount. But if it's doable, save up to the contribution limits for every retirement account. That's how to ensure you're getting the most from them.

4. Leaving contributions to a retirement account in cash

If you're contributing to a retirement account, great job. But after you put money in, you need to take another step if you want to invest it. Otherwise, it stays as cash in the account—and doesn't benefit from compounding growth the way it could if you invest the money. So look into your investment options for employer-sponsored accounts—and buy the investments you're interested in.

5. Being too conservative when investing

Any time you invest, you take a risk that the money you've put into the stock market could be lost. But as they say, no risk, no (potential) reward. Even though past performance can't guarantee future results, the stock market's value tends to rise over time, and a little more risk carries the possibility of higher returns. Still, downturns happen. When you're in your 20s or 30s, though, you could generally afford to make riskier investments because you have time to recover from dips.

Your employer-sponsored retirement plan likely offers investments like target-date funds, which are diversified portfolios designed for a future savings goal, like retirement. An investor selects the fund with the target year closest to their expected retirement date, and the fund manager gradually adjusts the diversified investment mix over time to be more conservative as the target date approaches. There are also asset allocation funds, which remain aligned with an investor's risk tolerance.

6. Maxing out too early and missing out on matches

For those fortunate enough to be able to max out their 401(k)s early in the year, be aware: there is such a thing as too early. Some employers might match contributions on a per-paycheck basis, and if an employee has already hit their max, they can't make further contributions that year for the employer to match. Some companies will make sure those employees get the full match by giving the entirety of the annual match through what's called a true-up contribution to the employee's retirement plan. But not all do—and you don't want to miss out.

7. Not looking for alternatives if you can't access an employer-sponsored retirement plan

No employer-sponsored 401(k) or 403(b)? No problem. If you earn income, you still have options for saving for retirement, including a solo 401(k), a traditional IRA, a SEP IRA (Simplified Employee Pension Plan), and a Roth IRA, depending on what that income is. The reason it's a mistake not to have any retirement plan: They come with tax advantages, which could allow you to save more money and potentially pay less to Uncle Sam in the long run. Just be sure you track contribution limits across plans so you don't overcontribute. Contribution limits are an aggregate amount for the whole retirement savings plan *category*—as in, IRAs as one category and employee plans as another category—not per plan. For instance, you can save in a 401(k), Roth 401(k), a traditional IRA, and a Roth IRA (if you meet eligibility requirements) all at the same time. You'll be subject to employee plan contribution limits for the 401(k) contributions and separate IRA contribution limits for the total you contribute across the traditional IRA and Roth IRA.

8. Thinking your retirement accounts are the only investing vehicles you need

So you know retirement accounts, including employer-sponsored plans, solo 401(k)s, IRAs, and even HSAs, which can be used for retirement health care expenses, have contribution limits. But if you're earning enough to save beyond those limits, consider a taxable brokerage account to stash more cash. Like the other accounts, it has the potential to grow over the years by allowing you to hold investments that could grow in value. But there are no contribution limits on a brokerage account, so you can save as much as you want in one. Unlike retirement accounts, a taxable brokerage account has no tax advantages for contributions and withdrawals. Note that though IRAs and HSAs are types of brokerage accounts, they are tax-advantaged, not taxable.

9. Thinking you earn too much to contribute to a Roth

Roth IRAs are a type of retirement account in which contributions are made with after-tax dollars, but qualified withdrawals, including on earnings, could be tax-free under certain conditions. Roth IRAs not only have contribution limits but also income limits. So if you're making a comfortable salary, you might think you can't contribute to a Roth. That might not be true, though. If you earn less than $161,000 as a single filer or less than $240,000 as married-filing-jointly taxpayers in 2024, you may contribute to a Roth IRA. There are no income limits to contribute to a traditional IRA, and you can contribute to both at the same time. Just don't exceed the IRA contribution limit across the accounts.

10. Taking early withdrawals, loans, or cash-outs on workplace retirement plans

If you take out money from your retirement accounts, either as a withdrawal or loan, when looking for where to find cash when you need it, understand that withdrawals are taxed as ordinary income before age 59½—and they come with a 10% penalty to boot unless an exception has been met or you qualify for a hardship withdrawal. With loans on employer-sponsored retirement plans, you're charged interest, and if you leave your job, the entire loan may need to be repaid immediately, depending on your plan. If you can't repay your loan, you'll be charged ordinary income tax on the loan amount, plus a 10% early withdrawal penalty before age 59½.

Sometimes these can't be avoided, but abandoning or cashing out your workplace plan when you switch jobs has consequences. According to Portability Services Network (PSN), which helps workers stay invested in retirement plans when they change employers, Americans lose more than $1.5 trillion when changing jobs.[1] Forgotten accounts, PSN estimates, hold assets of almost $40 million. Instead, consider rolling over the funds in your employer plan to another eligible retirement plan.

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It's not too early to save for retirement.

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1. Portability Services Network, "Portability Services Network Launches Nation's First Solution to Move Workers' Retirement Savings When Changing Jobs," https://psn1.com/, November 7, 2023.

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