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Financial Briefs

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How Do You Know if You're Saving Enough?

Most people think when they start earning more money, they'll start saving more money. But what often happens is the more you make, the more you spend. If you want financial independence, you have to establish a savings routine. The more money you make, the more your savings rate needs to increase.

While it may seem like a daunting task, it can be accomplished. The only way to reach financial independence is to save and live within your means. Your savings should include retirement account contributions, matching funds from your company if available, cash savings, and any other investments.

Savings at Every Age

Your 20s: You are just starting out and, hopefully, you've found a good job that pays a reasonable salary. This is the beginning of the accumulation stage, so start by paying off any debt you have and work to save at least 10%–25% of your income. If your employer offers a 401(k) plan, start investing right away. Try to contribute as much as possible or at least as much as your employer will match.

Your 30s: Hopefully, you have now found out what you want to do for a living and have had a jump in income. You are still in the accumulation stage, so you should be increasing contributions to your retirement account and trying to contribute the maximum per year. By the end of your 30s, you'll want at least twice your annual salary saved. A simple example: If you're making $50,000 annually, you'll want to have $100,000 accumulated in savings by age 39. But remember this includes retirement accounts.

Your 40s: This is the decade of major responsibilities, as you probably have dependents. Your income may have increased as you climbed the ladder at your job or moved to a new one. And even with the increase in expenses, you should also be increasing your savings rate. By the end of your 40s, you should have saved four times your salary. Now you will want to max out your

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How to Set Savings Goals

Setting clear, specific savings goals is one of the best ways to achieve your financial objectives, but it's a task that many people struggle with. Unfortunately, establishing savings goals is a bit more complex than simply picking a number out of the sky and hoping you can eventually set aside that much cash. Below is a simple seven-step plan that you can use to set — and reach — your savings goals.

1. Select Goals

Before you start saving, it helps to know what you are saving for, since most of us find it easier to save money if we know it will eventually be used for a specific purpose. Common savings goals are creating an emergency fund with at least six months of living expenses or saving for retirement, a child's college education, a down payment, or a vacation. Your goals will be as unique as you are; what's most important is that you select them and make them as specific as possible.

2. Determine How Much You Need to Save

Exactly how much money do you need to accomplish your goal? For example, you may want to have $5,000 saved for your dream vacation, $30,000 for a down payment on your first home, or $1 million for retirement. Don't just pick a random number at this point — research how much you'll actually need so you can be confident your savings will get you to where you want to be.

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How Do You Know?

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contributions to retirement accounts as well as monitor your investments for performance.

Your 50s: You are now at your peak earning years and your saving rate needs to be at its highest. Your expenses are still pretty high; but by the end of this decade, you will most likely be an empty nester, and expenses should decrease. By the time you reach 59, you'll want to have saved seven times your income. Monitor your investments so you can make adjustments to increase your returns.

Your 60s: You're getting close to or have retired. Your mortgage may be paid off and expenses have decreased. Your saving should be at its peak, which is 10 times your income prior to retiring. You can now start to relax as you will receive distributions from your retirement accounts as well as Social Security benefits. You'll need to make sure that you are informed about distribution requirements of your retirement accounts.

Your 70s and beyond: Now all of your expenses are covered by your retirement account distributions and Social Security benefits. Hopefully, you are reaping the benefits of all those years of saving.

Watch for These Warning Signs

As you go through the journey to retirement, you may not be able to accumulate the level of savings you need, but you should have acquired a good amount of savings for a comfortable retirement.

Take stock of how much you are saving every year and look for warning signs that you are not saving enough. If you experience any of the following, you need to take a hard look at your financial situation to get on track:

- You have no idea how much money you're spending every month, which means you are most likely overspending.
- You don't have savings goals or a savings plan. If you don't have goals and a plan to achieve them, you will have a hard time saving for important milestones.
- You're living paycheck to paycheck. It's time to take a serious look at your finances to see what can be reduced or eliminated.
- You're putting off saving for retirement. It will get here quicker than you think, and this is the one thing you really need to start saving for as early as possible.
- You can't pay your credit card balance in full, which means you probably have significant debt.
- You don't have an emergency fund. You know the unexpected will happen and need to be prepared.

Please call if you'd like to discuss this in more detail.

Ways to Increase Savings

It's all well and good to talk about saving more money, but in reality, it is difficult to save when you don't have anything left after the bills are paid. That means that when you really need to save, you'll have to look for the cash in some unexpected places:

- Refinance your mortgage if the current interest rates are favorable. A general rule of thumb is that it is worth refinancing if you can secure a rate from ½% to 2% below your current rate.
- Revert to a 30-year mortgage if you have fewer than 20 years left on your current mortgage and need to free up extra cash.
- Make sure you are taking advantage of all savings perks with a 401(k) plan or IRA and any employer matching contributions offered.
- Use employer-sponsored benefits, like a pretax flex savings account for out-of-pocket medical expenses.
- Get rid of nonessential, recurring expenses. If you pay for an unused gym membership, cancel your contract. The same goes for any subscriptions you can do without.
- Buy off-brand products. Most generic products are just about identical to the name-brand, but with different packaging. You'll save a significant amount just switching.
- Use coupons. Most stores have digital apps for their weekly ads and coupon clipping.
- Repair expensive items instead of replacing them if it's not too expensive to fix.
- Review your insurance premiums every few months. Companies are competitive and may offer you lower options to lure you away from their rivals. Make sure you get every discount applicable to your situation, and see if bundling different types of insurance will lower your price even further.
- Cut out an expensive habit, like premium coffee beverages. At the very least, reduce the number of times you make purchases related to this habit per week and keep track of the money you save.
- Secure lower interest rates on your credit cards if you have a good credit score…or better yet, don't carry a balance on your credit cards at all.
- Utilize auto-pay for reduced rates, especially on student loan payments. You can also set up automatic payments for other fixed expenses, to ensure that you never have to pay a late fee for missing a payment.
- Keep up to date on your bank accounts to avoid overdraft fees.
- Make your home more energy-efficient to save on utility costs and make it more marketable when the time comes to sell.
- Conserve gas by driving slower. It's not exciting, but it works. Maintain the proper tire pressure, avoid hard braking, and use cruise control on highways to improve your gas mileage.

How to Set Savings

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3. Consider Your Timeline

Savings goals can generally be divided into three broad categories: short-term (those that you hope to reach in a year or less), mid-term (those that are roughly one to five years away) and long-term (goals you hope to achieve in five years or more). It's important to know your timeline, since it will have a direct impact on how aggressively you need to save to hit that target and where you put your money.

4. Determine How Much to Set Aside Each Week or Month

For short-term goals, this step is fairly simple. Say you plan to get married in a year, and you want to have $10,000 saved toward that goal before your big day. To meet that goal, you'll need to save roughly $833 per month for the next year, or $10,000 divided by 12.

Determining how much you need to save to hit your long- and mid-term goals can be a bit more complicated, as you'll need to take into account the growth of your investments.

Whatever the timeframe for your goals, making these calculations is important, because it allows you to adjust your savings as your budget allows. For example, if you can't afford to save the over $800 a month you need for the wedding, you have two options: You can either adjust your timeline or opt to keep it the same and save less.

5. Automate Your Savings If Possible

Once you know how much you need to save, you'll likely find it easier to stick to your plan if you can automate your savings. Adopt the pay-yourself-first principle and set up automatic transfers to your savings or investment accounts. The key is to save the money before you ever have a chance to spend it.

6. Choose the Right Way to Save

Depending on your goals and timeline, you have different options for savings. Traditional savings accounts are a good option for short-term goals, since your money will be safe, while investment accounts and retirement accounts, like a 401(k) plan or IRA, are good options for longer term goals, since you'll earn money as you save.

7. Watch Your Money Grow

Once you have your savings plan in place, keep an eye on how it is doing. You will need to periodically review your results and make adjustments as necessary.

Please call if you'd like to discuss your savings goals in more detail.

Use Conservative Assumptions

How can you ensure you'll have sufficient funds to last your entire retirement? So many of the variables used to calculate this amount seem uncertain. If you're concerned about running out of money during retirement, you need to be very conservative with your assumptions. Some tips to consider include:

- **Assume your retirement income needs to be at least 100% of your current income.** Most rules of thumb indicate you'll need between 70% and 100%, but figure on at least 100% to be safe. Nowadays, retirees want to travel, pursue hobbies, and live an active lifestyle, which generally means you'll need the higher end of these estimates.
- **Add a few years to your life expectancy.** You should probably plan on living until at least age 85 or 90. If your family has a history of longevity, add a few more years to these figures. While you may find it hard to believe you'll live that long, you don't want to reach age 75 or 80 and find out you've run out of money. At that point, you might not be able to return to work.
- **Reduce your estimates of Social Security benefits.** While Social Security is currently in sound financial condition, that is expected to change after all the baby boomers retire. To be safe, count on benefits that are somewhat less than the Social Security Administration is estimating, and don't plan on adjustments for inflation.
- **Cut back on living expenses now.** This has a two-fold impact on your retirement. First, it frees up money to set aside for retirement. Second, you get used to a lower standard of living, which should also reduce your expected lifestyle for retirement.
- **Reach retirement with no debt.** Mortgage and consumer debt payments consume a significant portion of most people's income. Pay off all those debts by retirement and you significantly reduce your cost of living.
- **Forget about early retirement.** Saving enough to last from age 65 to age 85 or 90 is a difficult task. Trying to retire at age 55 or 60 is just not practical for most individuals, unless you're willing to significantly reduce your lifestyle. Working a few more years can go a long way in helping to fund your retirement. Those years are typically your highest earning years, so hopefully you'll save significant sums during that period. Also, every year you work is one year you don't have to support yourself with your retirement savings.
- **Consider working during retirement.** Especially during the early years of retirement, you should consider working at least on a part-time basis. Even modest earnings can help significantly with retirement expenses.
- **Plan on taking conservative withdrawals from your retirement assets.** Don't plan on taking out more than 3% to 4% of your balance annually. Your funds should last for decades with that level of withdrawal.

News and Announcements

From the Alexander Household

With so many needs in the world today, it can be a challenge to decide where our gifts and talents can truly make a difference.

The Women for OSU Symposium featured Dr. Tererai Trent, who talked about growing up in Zimbabwe. She worked for eight years to get her GED, earning a spot in college in the United States. Twenty years after beginning work toward her dream of an education, she received her Ph.D. She became passionate about educating women and Oprah Winfrey partnered with her to build a series of schools in Zimbabwe.

There are so many good causes that we can support. Charity Navigator groups them into categories: animals; arts, culture, humanities; community development; education; environment; health; human and civil rights; human services; international; research and public policy; and religion. From years of working with nonprofits, I believe it is important to focus your efforts so you will have a greater impact. Tererai asked one question that can help to focus on what matters most to you. She asked, "What breaks your heart?"

I am passionate about the power of education to change lives and the importance of the arts and the creativity they engender in our communities. And our family is facing challenges with cancer and Alzheimer's. If we each do our part to support the causes that are most important to us, together we can change the world.

Carol Ringrose Alexander,
CFP®, AIF®, CEPS, CDFA™

From the Bolander Household

On the last day of summer, I had scheduled a day out with my grandkids for the state fair since their school had planned a professional day for the teachers. Though the fair was cancelled this year, I kept the date with the kiddos. It was a beautiful day with a hint of fall in the air and a high temp of only about 80 degrees.

While inspecting my flower beds and trimming faded blooms, a huge butterfly landed on the largest bright orange zinnia in the garden. We watched with wonder as it flitted from one bloom to another, always coming back to land on the orange ones. I snapped a few pictures on my phone for later research. Turns out, it was a "giant swallowtail" and their favorite nectar plants do include zinnias. However, it is not normally seen in these parts and I wondered if the recent hurricanes in the southeast sent it our way. The brownish-black wings are about five inches across with pale yellow dots forming two lines which one website said was camouflage resembling bird-droppings. The giant swallowtail also has tiny dots in vivid blue and orange near the tail. At the end of the day, we celebrated summer one last time with root beer floats.

Have a great month.

Brenda C. Bolander,
CFP®, CPA/PFS

From the Misialek Household

"What seems to us as bitter trials are often blessings in disguise."
~ Oscar Wilde

Navigating through this new normal has definitely been a challenge in 2020. Whether you are dealing with changes at work or at home, everyone has inevitably had to change or adapt their routines. In our house, the calendar stopped for months after spring break. I remember about a month into quarantine, telling my daughter that I hoped she would remember the extra quality time we had been granted together instead of missing out on all the usual activity hustle we were used to. She smiled as we drew on the sidewalk that day with chalky hands and told me this was actually fun.

I decided on that day that I would look for COVID blessings and encouraged our staff to as well. We had many conversations about the new changes. Of course, we chatted about difficulties, but more importantly we celebrated the good things that I wanted to share with you. Below are a few of the standouts:

- More family time
- Even more of a flexible work/life balance
- Increased outside activity
- Enhanced technology
- More communication in new ways
- Job security
- Incredible clients
- Supportive coworkers and management

Even though your blessings could be different than ours and sometimes difficult to see, our hope is you are able to reflect on a few of the good things in 2020 that might just be behind a mask too.

Heather Misialek
Senior Vice President