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Financial Briefs

OCTOBER 2024

Need to Catch Up on Retirement Savings?

Life goes fast. It may seem like just yesterday that you graduated from college, got married, bought a house, had children, and sent them off to college.

But now it's time to get serious about saving for retirement. Even though you may be only 15 or so years from retirement, you still have enough time to make major changes to your finances so you can retire comfortably.

Max the 401(k) Plan

If you have an employer-sponsored defined-contribution plan, try to make the maximum contribution, which is $23,000 in 2024. If your employer matches contributions, take full advantage by contributing the required amount to receive the full match.

No Defined-Contribution Plan?

If your employer does not offer a 401(k) plan, consider opening a traditional or Roth IRA. The contribution limit for both types of IRAs is $7,000 per year. With a traditional IRA, contributions are tax-deferred until you take distributions, so you reduce your taxable income and your money grows tax-free. Roth IRAs are not tax deferred, but you will not have to pay taxes when you take distributions. You should also consider setting up automatic deposits to your retirement accounts by either establishing direct deposit through your employer or setting up an automatic transfer from your checking account. This will help ensure that the money goes directly to your retirement, helping to avoid the temptation to spend it.

Catch-up Contributions

If you are age 50 or older, you can make annual catch-up contributions to your retirement accounts. You are eligible to contribute an additional $7,000 to a 401(k) and an extra $1,000 to a Roth or traditional IRA.

Other Investments

In addition to your retirement accounts, you should also develop an investment plan. You'll want to establish a brokerage account, which will provide a wide variety of investment options, such as stocks, bonds, mutual funds, and exchange-traded funds. While these investments will not have the same tax advantages as a retirement plan, you will pay long-term capital gains tax rates instead of ordinary income tax rates on any gains. Based on your income, long-term capital gains tax rates range from 15% to 20%.

While you'll want to define an asset allocation plan across the vari-

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How Much Should You Save in Your 401(k)?

How much should you save in your 401(k) plan? As much as you can seems like a pretty good answer. Of course, life isn't that simple. Saving as much as possible is a laudable goal, but it doesn't exactly qualify as planning. To make sure you're on track for retirement, you should have an idea of how much you need to set aside to reach your retirement goal.

Know Your Limits

Before you decide on an annual savings target, it's important to understand how much you're allowed to contribute to a 401(k) plan. In 2024, workers younger than 50 can contribute up to $23,000 to a 401(k), 403(b), or similar plan, while those age 50 and older can contribute $30,500 annually, which is an extra $7,500 per year.

Contribution limits usually go up slightly every year. If you're an aggressive saver, pay attention to contribution limits and adjust your plan accordingly.

At a Minimum, Get Your Match

The first rule of 401(k) plans is to save enough to get your full employer match. You've probably heard it before, but not contributing enough to get your employer's

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Need to Catch Up?

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ous asset classes based on your risk tolerance, you should consider that you have a more limited timeframe for your money to grow.

Saving Comes Before Spending

This needs to become your new mantra. To be able to make significant strides in your retirement savings, you should always put saving ahead of spending. Most people have saved very little, because they spend their paycheck first and save whatever may be left at the end of the month. Shift to a different way of thinking and save first.

Hard Choices

In addition to maxing your savings and investments, focus on reducing expenses and making other financial moves to increase cash flow, which then frees up more money for saving. You may have to make some sacrifices, but keep in mind that you're doing this now so you can live more comfortably later.

Decrease Expenditures

The quickest way to find some extra money for saving is to reduce your spending. Scour your monthly budget to see what can be eliminated or reduced. Hopefully you have a monthly budget, but if you don't, it's time to create one. You will want to track all of your expenditures for a few months to see where your money is going. Once you have a better understanding of your expenses and where you may be overspending, you will then be able to identify and cut unnecessary expenses. If you are close to retirement with limited savings, you will need to weigh each expense against your long-term needs.

Relocate or Downsize Before Retiring

Changing your living situation can be an effective way to significantly reduce your living expenses. Downsizing your home or moving to a more affordable area has a couple of benefits. First, it will allow you to save more money. And second, when you do retire, your household expenses will be much more manageable.

Review Your Debt

After reducing your spending, you should take a serious look at your debt. One way to reduce your monthly expenses without a major change in your lifestyle is to refinance your mortgage. If the current mortgage rates are lower than the interest rate you are paying, it is worth going through the exercise of understanding how much you could save by refinancing your mortgage. If you intend to stay in the home long term, you can also extend the term of the loan to lower your payment.

Don't just stop at your mortgage. If you have significant car payments, look at refinancing your car loans too. Most people don't realize that just like a mortgage, a car can also be refinanced. Also, if you have credit card debt, you may want to look at a debt consolidation loan to reduce your monthly payment.

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

Small Things for a Big Savings Impact

If you are having trouble saving, try some of these small things that may have a big impact on your savings.

Save a Little More — Obviously, it would be great to be able to save a lot, but if you can't try saving a little more than you currently are. Put an extra $25 in your savings account or contribute an additional 1% to your 401(k) plan. If you take a serious look at your budget, you will most likely find there are small items you can cut and put that money toward your savings. Even a small amount of money can have a big impact over time.

Make an Extra Payment — If you make one extra mortgage payment a year that is applied to the principal balance, you could pay off your mortgage years in advance. You can also make an extra payment on your car or round your payments up to the nearest hundred dollars each month to pay your car off months in advance. Make sure you check with your lender to ensure that extra payments are put toward the principal balance.

Understand Your Tax Bracket — Get familiar with tax brackets so you can use them to your advantage. When you look at tax brackets, you can see that as income increases, the tax rate also increases. By contributing more to your 401(k) plan, you could reduce your taxable income, which allows you to save for the future while paying fewer taxes.

Know Where You are Going — It's difficult to save for something like retirement if you don't know what it's going to take to get you there. If you've never run a financial projection to see how your savings will grow over time, call so we can use a retirement calculator to run various scenarios. This valuable information will help you understand where you are going and how you're going to get there.

Organize Your Finances — If your financial information is a mess, chances are it's hard to save and at the same time pay off debt. Force yourself to organize all of your financial information, including both your assets and debt. Once it's organized, you will be able to see more clearly the steps you need to take to save more and pay off debt.

Cancel Things You Don't Use — Many people pay recurring expenses automatically from their checking account or credit card and then forget about them. Maybe it's a magazine subscription or a membership renewal that you are not using. Scour your statements to identify these expenses and get rid of them. While you're at it, check for things that you can live without, so that you can put more money toward your savings goals.

How Much?

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matching contributions is like leaving free money on the table. Even if you're not impressed with your company's 401(k) plan and would prefer to save in some other way, it still makes sense to contribute enough to at least get that match.

But How Much Do I Really Need?

So you know how much the government will let you save and that you should be contributing enough to get your employer match. But how much should you be setting aside to prepare yourself for a comfortable retirement? That's the ultimate question.

Unfortunately, there's no magic number, because every individual situation is different. People have different tolerances for risk, market performance varies over time, and everyone has their own idea of an ideal retirement. That's why it's best to talk to a financial advisor who can help you determine how much you need. But in the meantime, there are a few rules of thumb that may help you get a sense of where you stand.

Some experts use a simple formula based on your age and salary to give people a rough idea of how much they need to save. Here it is:

- By age 35, your savings should total at least your annual salary.
- By age 45, your savings should total at least three times your annual salary.
- By age 55, your savings should total at least five times your annual salary.
- By age 67, your savings should total at least eight times your annual salary.

In other words, if you earn $75,000 a year at age 35, you should have at least that much saved in your 401(k) and other retirement accounts. If your salary hits $125,000 annually by age 67, you'll need $1 million. But if you're earning less at age 67 — say $80,000 a year — $640,000 might be enough. If you're married, also keep in mind you'll need to make sure your spouse is saving enough for retirement.

Another guideline suggests saving a certain percentage of your salary every year for retirement. Between 10% and 15% is usually the recommended number. If you started saving when you were young, your target savings percentage is usually lower, but if you procrastinated, you're more likely to be looking at having to save 15% or even 20% of your pay to get you on track to a comfortable retirement. The good news is that your employer match counts in that number, so if your goal is to save 10% and your employer match is 5%, you only need to save 5% of your pay.

Again, these retirement savings rules are only guidelines. To really find out how much you need to save in your 401(k) plan and other retirement accounts, please call to discuss this in more detail.

Retirement Planning Assumptions

To enjoy your retirement without financial worries, make sure you have enough money saved. However, calculating how much you need can be a daunting task, since a variety of factors affect your answer. Some of the more significant factors include:

What percentage of your preretirement income will you need? You can find various rules of thumb indicating you need anywhere from 70% to over 100% of your preretirement income. On the surface, it seems like you should need less than 100% of your income. After all, you won't have any work-related expenses, such as clothing, lunch, or commuting costs. But look carefully at your current expenses and how you plan to spend your retirement before deciding how much you'll need.

When will you retire? Your retirement date determines how long you have to save and how long investment returns can compound. Even extending your retirement age by a couple of years can significantly effect the ultimate amount you need.

How long will you live? Today, the average life expectancy of a 65-year-old man is 81 and of a 65-year-old woman is 84 (Source: Social Security Administration). Most people look at average life expectancies when estimating this, but average life expectancy means you have a 50% chance of living beyond that age and a 50% chance of dying before that age. Since you can't be sure which will apply to you, it's typically better to assume you'll live at least a few years past that age.

What long-term rate of return do you expect to earn on investments? At a minimum, make sure your expectations are based on average returns over a very long period. You might even want to be more conservative, assuming a rate of return lower than long-term averages suggest. Even a small difference in your estimated and actual rate of return can make a big difference in your ultimate savings.

Have you considered inflation? Even modest levels of inflation can significantly impact the purchasing power of your money over long time periods. For instance, after 30 years of just 2% inflation, your portfolio's purchasing power will decline by 45%. Consider long-term inflation rates, since your retirement could last for decades.

What tax rate do you expect to pay during retirement? Especially if you save significant amounts in tax-deferred investments that will be taxable when withdrawn, your tax rate can significantly affect the amount you'll have available for spending. You may find your tax rate is the same or higher after retirement.

Once you've estimated these factors, you can calculate how much you'll need for retirement. Please call if you'd like help with this calculation.

News and Announcements

From the Thurman Household

Levi recently earned his brown belt in Jui-Jitsu, which is one belt level below a black belt. I'm proud of his effort. Unfortunately, he separated his shoulder during the U.S. trials. He had shoulder surgery with six anchors put in. He's now months into physical therapy, a six-month plus slow and sometimes painful process. It's tough for him to be patient with the recovery process, but he's getting through it. He's coaching and really enjoys it.

I'm working on my next book, working title, "The Retirement Answer Book: The Most Asked Questions for Those About To Retire." It's a slow process and sometimes feels like physical therapy.

I'm looking forward to competing in the Senior Games in Pickleball, especially since I'm in a new age bracket: 65 and older. ☺ There will be over 300 participants.

Pati recently coached a senior walking and swim team. There were 24 participants ranging from 52-86 years of age. They participated in the Oklahoma Senior Games and won 62 medals.

Randy L. Thurman, CFP®
CPA/PFS™, CEO

From the Flinton Household

"The best life is the one in which the creative impulses play the largest part and the possessive impulses the smallest." - Bertrand Russell

As the demands on our family's time increases, I am trying to find the right balance between scheduled activities and free time. I have always enjoyed the structure of routine, and I also need to break up the routine on a consistent basis. I will drive varying routes to work during the week when I notice I've taken the same route on too many consecutive trips. I know what I will order at almost every restaurant that we visit, and then I will randomly ask a server for their favorite dish and try that instead. This is not a rare occurrence; most people are wired for both normalcy and novelty. Where I am finding tension is with the continued increase of activities with teenage girls. As Samantha and Emerson get busier with life, and as Courtney and I do as well, finding those periodic moments of spontaneity and novelty is more and more difficult. With deadlines, exams, performances, and games to attend, it is a balance to not have spontaneity feel like capricious impulses that are shot down rapidly. We are balancing this tension with "check in" surprises. We try to gauge, and often ask directly, how they would feel about a particular event or idea. More often than not, we are glad we asked. With a mostly travel-less summer, I was glad when they took us up on attending a concert in Miami with a quick detour through NY over Fall Break. It may have not been spontaneous, but I'm sure we will still make some great memories.

Andrew K. Flinton, CFP®
President

From the Alexander Household

My father, like his father, was a physician in Guthrie and my mother managed the Ringrose Clinic. My parents built their dream medical clinic with an ambulatory surgical center, where they spent most days, evenings and weekends after my siblings and I left for college.

After my father retired, his clinic was used as a movie set for "Reagan" about Ronald Reagan's life, which is currently in theaters. Kerry and I went last week to see Dad's clinic in the hospital scenes. While I enjoyed seeing our clinic, it was fascinating to see how Guthrie's Scottish Rite Temple was utilized for scenes depicting everything from the Oval Office to locations in Moscow.

When I was a teenager, our Rainbow chapter served meals for Masonic events, so I know the building well. Designed on 10.6 acres set aside for our Capitol, the Oklahoma Legislature met there in 1909-10 in what is now the East Annex. When deeded to the Masons, they constructed the Classical Revival-style Temple starting in 1919. For me, the Temple's design and beauty inspire awe. If you are intrigued by this hidden gem, tours of the Temple are offered Monday-Thursday at 10 a.m. and you can see the virtual tour at www.guthriescottishrite.org/index.php/virtual-tour/.

The Ringrose Clinic is now home to the Guthrie Sports Grill and, if you look closely, you will find some of my father's medical journals on the bookshelves. Isn't it fascinating how buildings can become the "set" for a variety of dreams?

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