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Financial Briefs

DECEMBER 2024

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, it is important 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 if you 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 you need to start by paying off debt if you have student loans 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 contribute as much as your employer will match.

Your 30s: Hopefully, you have now decided 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'll need to 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 be maxing out your contributions to retirement accounts as well as monitoring your investments for performance.

Your 50s: You are now at your peak earning years and your saving rate should be at its highest. Your expenses are still pretty high; but by the end of this decade, you will

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Sufficient Funds for Your Entire Retirement

Depending on your age and circumstances, retirement can feel far away and mysterious or achingly close and excitement (or panic) inducing. When you're young, the idea of retirement is shrouded in the mists of future wealth and idle thoughts of what you'll do when you don't have to work anymore. But while those fast approaching retirement may have a clearer view of what is to come, in some ways, they are just as unaware of what is really in store for them over the next few decades. Most of us don't know how long we're going to live, so making sure we have sufficient funds for our entire retirement is incredibly important.

How Much to Save?

While it's thought you could only need as low as 70% of your current income per year in retirement, it is wise to assume that you will need closer to 100%. Think of all the things you enjoy doing now: traveling, hobbies, attending cultural events, and sports games. All of these could be a vital part of an active and interesting retirement, but they also cost money. Make sure you have saved enough to be active and that your withdrawal rate is not so high that your resources could deplete early. While it's always cus-

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How Do You Know?

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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, and you should have 10 times your income prior to retiring. You can now start to relax as you will take distributions from your retirement accounts as well as receive 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 that you are retired, all of your expenses are being covered by your retirement account distributions and Social Security benefits. Hopefully, you have saved well and are reaping the benefits of all those years of saving.

Watch for These Warning Signs

As you journey toward 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 can and does happen and it's important to be prepared.

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

Is Your 401(k) Plan Enough?

If you work at a company that offers a 401(k) plan, especially if the plan offers matching contributions, it may be the most important part of your retirement investment plan. But should it be the only part?

The maximum annual 401(k) contribution is $23,000 in 2024 and $23,500 in 2025, not including employer-matching contributions. If you are at least 50 years old, you can contribute an additional $7,500 in 2024 and 2025, if permitted by the plan. Your plan may impose lower limits to ensure it complies with nondiscrimination rules.

Here are five questions to help you decide whether your 401(k) plan is the only plan you'll need for retirement:

- **What kind of lifestyle do you want to fund in retirement?** You'll find general rules of thumb indicating you need anywhere from 70% to over 100% of your preretirement income during retirement. How much you'll need depends on your individual circumstances. For example, if your mortgage will be paid off and you plan to stay home and watch your grandchildren during retirement, 70% of your preretirement income may be sufficient. On the other hand, if you plan to travel extensively, 100% may be a better number.
- **How much can you count on from Social Security?** Social Security benefits were never designed as the sole source of retirement income, but they still are a valuable source of income. Those with lower incomes will find that Social Security replaces a higher percentage of their preretirement income than those with higher incomes.
- **How much does your employer contribute to your 401(k) plan?** The maximum contribution does not include employer contributions. Employer matching contributions vary by plan, but a typical match is 50 cents for every dollar contributed, up to a maximum of 6% of your pay. In recent times, many employers have reduced or eliminated matching contributions. If your employer offers a match, make sure you take full advantage of it. A generous matching contribution can contribute substantially toward your retirement.
- **What are the average returns on your 401(k) investments?** You can only choose from the investments offered by your 401(k) plan. But within those parameters, select investments that match the long-term nature of your plan and will help grow your retirement funds over time.
- **What other sources of income can you count on in retirement?** If you already have other retirement assets, you might not need to rely as heavily on your 401(k) plan. Other potential sources of retirement income might include a defined-benefit pension plan, individual retirement accounts (IRAs), an inheritance, or other investments.

If you contribute the maximum possible to your 401(k) plan and still aren't sure you'll have enough for retirement, please call for a review. There are a variety of other options you can use for saving for retirement.

Sufficient Funds

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tomizable, a good starting point is to withdraw 4% in the first year of your retirement, and continue to adjust for inflation down the road.

Cutting down on living expenses now will free yourself up for more contributions to your retirement and will give you an idea of how little you can comfortably live on. This will give you a better idea of how much you will really need in retirement. The most important expense to get rid of is payments on any debt before you enter retirement. Your cost of living will be significantly reduced if you have paid off your mortgage and any outstanding consumer debt.

When forming a plan or determining if you are ready to retire now, err on the side of longevity when it comes to your lifespan. Add a few years to what is generally expected — plan on living until 85 or 90. It is a far better situation to have saved more than necessary than to run out of funds so late in life. In the vein of further caution, it is a good idea to have an emergency fund outside of your retirement plan. A general rule is to have at least six months of living expenses tucked away just in case.

What about Housing?

In general, housing should take up about 25% of your gross pay or 35% of your take-home pay. If you own your own home and have paid off your mortgage, this shouldn't be a difficult guideline — but remember that with a house comes additional, and often expensive, repair and maintenance costs. If you plan on staying in your home throughout your retirement, make sure the big stuff is in good working order or replaced while you are still drawing income. This includes the roof, the foundation, siding, HVAC, sewer lines, and septic system, as well as an emergency fund in case of fire or water damage.

Your house will also need to be adapted for your needs as you age. You may need to consider selling a home that requires a lot of upkeep and downsizing to something more manageable. No one wants to face the reality of physical deterioration, but most people face mobility issues as they age and a one-story home is safer and easier to navigate.

Continuing Income Options

It may be tempting, but resist the urge to take early retirement. It is difficult enough to save enough money to live on in retirement if you are only retired for 20-25 years. Imagine if you retire at 55 years old and live for another 35 years. You will need enough funds to support yourself in retirement for longer than you were in the workforce. Every extra year you work is a year you don't have to support yourself using your retirement savings.

Once you've retired, it can be helpful for your savings and your wellbeing to work a casual, light job. Many retirees find themselves missing the comradery of the workplace and the continued income will allow for more spending money, vacations, and greater security. You could put your experience to work for you as a part-time consultant in your former field, or put in a few hours a week at the town museum.

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

Don't Touch Your 401(k) Plan

You have three options to keep your 401(k) funds in a tax-deferred vehicle until retirement:

- **Leave the funds in your former employer's 401(k) plan.** Generally, you can leave the funds in your former employer's plan if your balance is at least $5,000. However, most plans will not allow you to borrow from your account once you leave the company.
- **Transfer your funds to your new employer's plan.** Find out if your new employer's plan accepts rollovers. If so, you can typically make the rollover even before you are eligible to make contributions. However, first check out the investment options to make sure the new plan has options that will fit your investment goals. Once the funds are in your new employer's plan, you'll be able to take loans if permitted by the plan. Also, if you work past the age of 73, you won't be required to take distributions from the 401(k) plan until you retire. If you decide to transfer the funds to your new employer's plan, get the appropriate paperwork from your new employer so the funds can be transferred directly to the new plan's trustee. Otherwise, if the funds go directly to you, your former employer will be required to withhold 20% for taxes. You must then replace the 20% with your own funds within 60 days or the 20% withholding will be considered a distribution, subject to income taxes and the 10% federal income tax penalty.
- **Roll the funds over to a traditional IRA.** Again, you should have your former employer transfer the funds directly to the IRA trustee to avoid the 20% withholding described above. Once the funds are rolled over to an IRA, you can invest in a wide variety of investment alternatives. With a 401(k) plan, you typically have a limited number of options. If you plan on leaving part of your 401(k) balance to your heirs, an IRA usually has more flexible options than a 401(k) plan. After the funds are transferred to a traditional IRA, you can then convert the balance to a Roth IRA.

News and Announcements

From The Thurman Household

Levi is doing well. His PT after shoulder surgery has been challenging but he has worked through it. He just got cleared from his doctor for Jiu Jitsu and he's ready to get rolling.

If you see me moving slowly, now you'll know why. It's a thing called Bradykinesia. It's a symptom of Parkinson's Disease. I've been diagnosed with early stages of it. Micheal J. Fox has had it now for almost 35 years. My plans are to continue to be an advisor for a few more years. I'm managing my symptoms, busy as ever writing, and staying active playing Pickleball and even taking some Jui Jitsu lessons from Levi.

As many of us do after receiving disappointing health news, I've spent a lot of time reflecting. I continue to return to these words: I'm blessed.

I'm blessed with incredible love and support from my wife and son. Both of them make me proud every day. I'm blessed by a professional community that teaches, pushes, and encourages me. I'm blessed to have smart doctors. I'm blessed to be in a position where I can continue to do things that I love with the people that I care about. The list goes on, but you get my point.

Life is good.

Make it a great month!

Randy L. Thurman, CFP®
CPA/PFS™, CEO

From the Alexander Household

"I like to compare the holiday season with the way a child listens to a favorite story. The pleasure is in the familiar way the story begins, the anticipation of familiar turns it takes, the familiar moments of suspense, and the familiar climax and ending."

—Fred Rogers

I find holiday traditions fascinating. Ours are a combination of those passed down from family and friends and things that we and our children enjoy. This is one way we remember and honor our parents. As we age, our traditions have changed as we hone in on our favorites.

I am looking forward to more peaceful holidays this year. In a two-year span, we experienced several deaths in our family. While I expected our parents to live much longer, I am incredibly grateful for the time we had with them. (If you have experienced loss, I recommend reading "The Beauty of What Remains" by Steve Leder.)

We are purposefully simplifying the season. Now that our children are older, we focus more on experiential gifts than material items. And we look for ways to give as a family, sharing our time and resources.

"May this season find you among those you love, sharing in the twin glories of generosity and gratitude."

—Oprah Winfrey

Carol Ringrose Alexander, CFP®
AIF®, CEPS, RLP®, CDFA®
Executive Vice President

From the Peralta Household

With the year quickly coming to a close, Quinn and I have started thinking about what we want 2025 to look like for us. With kids likely joining the picture in a couple of years, we've decided to dedicate the upcoming year to creating meaningful memories and exploring new destinations together. We've already begun planning a few trips, with Europe shaping up to be our "big adventure" of the year.

As advisors, we often remind clients to aim for a life where they can look back and say, "I'm glad I did," rather than, "I wish I would have." My goal in life is to be rich in experiences and memories. For us, this means prioritizing some travel and time together, even if it means decreasing our savings rate for a year, because the return on these moments will last a lifetime.

Alexx V. Peralta, CFP®
Financial Advisor

Retirement Investment Advisors, Inc.
Holiday Hours

Christmas
Tuesday, December 24, 2024 – Open 8-noon
Wednesday, December 25, 2024 – Closed

New Year
Tuesday, December 31, 2024 – Open 8-noon
Wednesday, January 1, 2025 – Closed