A STRATEGICPOINT WHITEPAPER

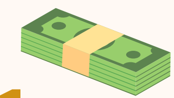
How Much Should You Have in Your 401(k)?

Practical Tips For Each Major Life Milestone

StrategicPoint
INVESTMENT ADVISORS

Everyone wants to retire. But not everyone has a clear idea of how much to save, when to start saving, and what steps they should take to have a comfortable nest egg. Are you on a healthy trajectory to retire? It's a difficult question for most people to answer. In fact, **"How much should I have in my 401(k) at my age?"** is one of the most common questions we receive.

A typical answer to that question might look like this:

AT AGE 35	AT AGE 45	AT AGE 55	FINALLY AT AGE 67
			
1x your salary	**3x** your salary	**5x** your salary	**8x** your final salary
($65,000 salary = $65,000 saved for retirement)	($100,000 salary = $300,000 saved for retirement)	($125,000 salary = $625,000 saved for retirement)	is recommended[1]

While these guidelines can provide a gauge of desirable retirement savings, it is often better to take a step back and adopt a more granular analysis of your goals and define the steps you need to take to achieve them.

Before you dive in, take a moment to consider your current financial situation. Having a clear idea of your current retirement contributions will help you to better understand your unique savings goals in the context of this guide.

Write down:

- What is your current salary?
- What percentage do you currently contribute to your 401(k)?
- What percentage does your employer match?
- How much do you currently have saved in your 401(k)?
- How many more years do you have until retirement?
- Do you have any other investment accounts?

Now that you have an idea of your current situation, let's begin by addressing how to determine your unique saving goal:

Estimate Your Future Spending Habits to Determine How Much You'll Need at Retirement

What is the golden number you should have your 401(k) right now so that you'll be comfortable well into your golden years? The answer is complex and can vary drastically from person to person. The first step is almost always the same: **In order to know how much you should have in your 401(k), you first need to determine how much money you'll need in retirement to maintain your current or desired lifestyle.**

At retirement, do you still plan to take two vacations per year? Do you regularly eat out, or catch the most recent film? What about clothing, vehicle, and beach house expenses? Your lifestyle is unique to you, and that's why there is no golden number to have in your bucket at retirement. What may be enough to sustain one person's lifestyle, may not be enough for your intended lifestyle.

"Experts recommend saving 15% or more of your gross income for retirement. The good news: Your employer's 401(k) match or contribution counts. So if your boss gives you 4%, you just need to save 11% on your own." [2]

Under Age 50: Plan for The Future

Whether you're in your 20s, 30s or 40s, the general best practices for retirement saving are principally the same. Here we will detail tangible steps you can take while under the age of 50 to develop a healthy retirement nest egg.

The Price of Procrastination

How much should you have saved in your 20s? Your 30s? What about after a sustained career, in your 40s? What if you're just starting out on your retirement planning somewhere in the middle? If you've made the decision to start saving before retirement, you've also made an extraordinarily wise long-term investment decision. Here's why:

Let's say you want to save $1 million by retirement. If you start saving at the age of 20, you will need to put aside $310 a month. If you wait until 30, you would need to set aside $625 a month.[2]

In this case, procrastination costs you more money. The bottom line is: whether you're 20 years old, or 40 years old: start saving now. Not only are you missing out on investment opportunity and financial gain, but you may not be able to afford to wait.

Don't Leave Money on The Table: Max Out Your 401(k)

If your company offers a 401(k) plan, it means they care about your future. A 401(k) is part of your total compensation package. If you're employer matches any amount whatsoever, that's money in your pocket. 401(k) matching is an employee benefit; if you pass it by, you could be leaving thousands of dollars on the table[3].

Here's an example of why you should take advantage of company matching:

Let's say you're 25 years old and making $50,000 a year. You start contributing 10% of your income to your 401(k) and your employer matches 100% of those contributions, up to 6% of your salary. If you save that same amount until age 65 and earn an 8% annual return, you'd have just over $2.1 million saved. If you were to wait until age 35 to start saving, your balance at retirement would drop to $945,000. By waiting just 10 years, you've cut your nest egg by more than half because you've missed out on the compound interest.[4]

If you were offered a free bonus, would you take it? Of course. The principle here is the same: why would you miss out on an opportunity for a bonus contribution to your 401(k)?

Remember, there are no second chances with 401(k)s and matching. If the year passes by, there is no chance of making up for that lost time.

Prioritize Where You Put Your Money and Put Yourself First

There is a very real emotional side to saving. For many, that includes the notion that you should take care of others before you take care of yourself. That's why many middle-age parents put away thousands of dollars a year into college savings accounts. As a result, they cut back on saving for themselves.

There are many ways to pay for college, and your children have a multitude of saving options available to them. They can apply for scholarships, grants, and loans. But remember: there is no way to borrow for your retirement. Not saving enough for your own future may backfire; if you don't have enough saved for retirement, your children may end up with hefty expenses related to your care further down the road.

Here are a few things to consider as you work through your children's college savings plan, and compare it to your retirement expenses. First, the return you'll receive from your investment portfolio will likely be greater than the interest on the loan your family may take to pay for a college education. Assuming this is true, it's best to leave your money in your 401(k). Second, assuming your child will be attending a four-year public college, you need to save $150 each month, starting when they're born, just to reach *one-third of the expenses*. The idea here is to spread the cost across a lifetime, assuming scholarships, grants and loans help with the rest[6].

Pay Attention to Your Asset Allocation

Playing things too safe in your younger years will probably come back to haunt you. If you're funneling all your 401(k) contributions into a money market fund, or stable value fund, you may never reach your goals.

Return to the basics of investing by aiming to create a diversified portfolio. While you don't need to be analyzing your investments monthly, it's certainly not a "set it and forget it" administrative task. This is where working with a professional to help you evaluate your investments and make smart decisions comes into play.

Over Age 50: Save Until It Hurts

Whether you've saved diligently through your 20s, or you've just started your retirement goals in your 50s, there are strategic steps you can take to get the most out of your 401(k) savings. The first step is to determine what is in your control. Here's an idea of what you can evaluate at this time:

- Your current 401(k) portfolio amount
- The date you're hoping to retire
- The difference between what you have, and your projected spending

If you sit down and do the math and you find yourself behind (or if you just want to ensure you have the most secure nest egg possible), we suggest saving until it hurts. What does it mean to save until it hurts? Save until that new purchase, whatever it may be, causes you to pause and think "can I afford this?" or "do I really need this right now?". It means to save aggressively.

The good news is, even if you feel as though you are behind, there is an option available to you through the IRS to help catch up.

The IRS Catch Up Provision

Once you turn 50, the IRS gives you the opportunity to drastically increase your savings power. This is available to you through the Catch-Up Provision[7]. This provision allows Americans 50 and older to save even more in their employer-sponsored retirement plans, to the tune of an extra $7,500 per year. The program was designed to allow older individuals to set aside enough savings for retirement.

Here is a savvy way to use this provision: If you receive a bonus at the end of the year, instead of spending the bonus, contribute the full amount (up to $7,500) to your 401(k) through this provision.

There is also a catch-up option available for those who do not have access to a retirement plan through their employer. These folks are eligible to contribute up to $6,500 to their Traditional IRA or ROTH IRA accounts per year, with a catch-up provision of $1,000. Note, it must be done by the due date of your tax returns. As a result of the passage of the SECURE Act 2.0 in late 2022, in 2025 workers between the age of 60-63, will have an additional catch up provision expected to be at minimum $10,000!

Form A Realistic Picture

If retirement is just around the corner for you, perhaps 10 or 15 years out, it's time evaluate whether your current lifestyle fits with the projected saving we outlined earlier in this guide. You're closer to retirement, so you'll have a better understanding of the lifestyle you'd like to save for in the coming years. As a reminder, here are some financials to consider for your planning:

- Compare your current expenses, such as utilities, groceries and gas, to what you expect to spend in retirement. See where these expected expenses line up with retirement income.
- Plan for extra health care expenses—even if you're completely healthy now. Health care challenges are a part of the aging process. It's highly unlikely that you'll be able to avoid them altogether. Before you officially retire, estimate your healthcare costs to the best of your ability. This may include evaluating Medicare out-of-pocket costs, deductibles and investigating supplemental insurance.
- You still need an emergency fund for big ticket items and unexpected events. Even if you don't think you'll need it, budget for things such as a new car, furniture, and a vacation.

Conclusion

Take the time to be proactive with your financial planning. Doing the math and determining your goals will help to ensure a comfortable and happy retirement. Whenever you are considering your financial plan, be sure to connect with a reputable wealth manager who can assist you with personalizing these tactics to fit your needs. A financial partner can assist you with planning your future spending, how much to save now, and proactive steps you can take. Your future begins now.

Need help with your retirement planning strategy?

Email us. We're here to help:
info@strategicpoint.com

Or, call to schedule a meeting with a StrategicPoint advisor:
800.597.5974

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1 https://www.fidelity.com/viewpoints/retirement/how-much-money-do-i-need-to-retire

2 http://www.kiplinger.com/article/saving/T063-C006-S001-10-financial-commandments-for-your-30s.html

3 http://strategicpoint.com/are-you-underpaid-is-it-your-fault/

7 http://strategicpoint.com/50-older-time-catch-up-on-retirement-accounts/