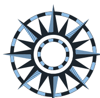
Your Guide to Saving Well at Every Stage of Life

No matter where you are in your retirement savings journey, these tips will help you get (or stay) on track.



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There's one question investors routinely pose to us: Are we doing enough?

Understandably, clients want to know whether they're on the right track with their savings. However, it isn't easy to summarize because saving practices are unique to an individual's situation.

For example, consider the situations of a married couple with no children and a family of five. All other things being equal, the former will have far fewer expenses and an easier path toward reaching their savings goals.

> Do you anticipate a significant future expense like buying a house? Maybe you're in the opposite situation, and the sale of a business or inheritance will create a substantial influx of capital. Taxes can also influence an investment strategy by taking a big bite out of returns if you don't plan for them properly. *These variables — and plenty of others — will influence your financial trajectory in manners that need to be accounted for when establishing savings goals.*

Here, we'll offer some clarity by establishing a few broad savings goals for different stages of life.

When It's Time to Save

We all know age is great for experience, but it's youth that gives you financial options. The younger you are, the longer you have to build your wealth. In general, that means you can also take more risks because you have time to make up for anything that doesn't pay off.

The closer you inch toward retirement, the more you ought to reduce your risk gradually. In retirement, you'll have a much harder time handling a significant downturn in your portfolio because it might take years for the market to recover.

If you depend on withdrawing money for living expenses, you also might be forced to sell assets when stock prices are depressed. To avoid such a scenario, it's best to reduce portfolio volatility later in life.

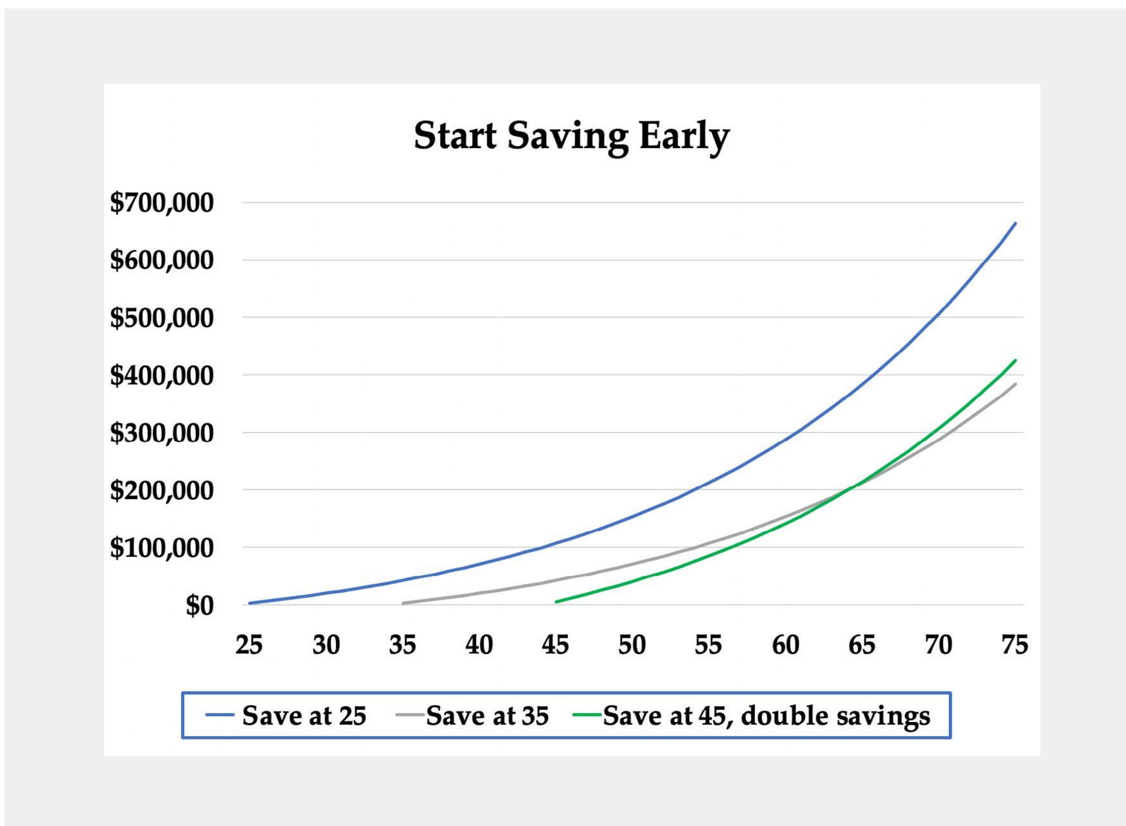
With those broad generalizations adding some context, let's examine a timeline of how we believe your financial journey should unfold — one decade at a time.

In Your 20s: Start Now for Maximum Effect

With so many options and possibilities available to this age group, it is nearly impossible to prescribe a specific milestone to hit. Some 20-somethings are starting their careers, some are starting families, and others are either working to pay down college debt or taking out additional loans to get advanced degrees.

With these varying life stages in mind, the only savings goal that's non-negotiable for this group is to start. The best time to start saving is yesterday, but the second-best time to start is right now. The main advantage of saving in your 20s is that you're giving your money the most time possible to compound and grow before retirement.

> In the chart below, we compare the retirement savings outlook of three people. The first person begins saving $250 per month at age 25 and generates a 5% annual return on that savings. The second person also saves $250 per month and generates a 5% annual return but does not begin saving until age 35. The third person saves at twice the rate ($500 per month) beginning at age 45, generating the same 5% return. The result? The early saver who started at age 25 will be the most prepared for retirement — by far.



Furthermore, saving early in life helps build the kinds of financial habits that will serve you well throughout your lifetime. Setting money aside for future needs is the only way to ensure you're ready to live an enjoyable retirement when the time is right.

The best thing you can do in your 20s is to pay down your debt and save as aggressively as possible. Invest in long-term growth opportunities rather than income investments and start contributing to retirement accounts. If your employer offers a 401(k), begin contributing to that and aim to save at least as much as is required to receive any matching funds from your employer (up to a maximum of $19,500). Because your income tax bracket is likely to be lower in your 20s than it will be in a few decades, it's probably a great time to open and contribute to a Roth 401(k) if your employer offers the option. If you don't have access to a 401(k), open an IRA or Roth IRA, which both allow contributions of up to $6,000 in 2021.

If you're one of the growing number of self-employed individuals in the U.S., don't let the lack of an employer-sponsored retirement plan stymie your saving plans. IRAs and Roth IRAs are available to those without an employer plan, and some individuals may be eligible to open a solo 401(k) or SEP IRA — both of which offer generous contribution limits that allow you to put a substantial amount toward your retirement.

In Your 30s: Stay Aggressive and Progressive

Retirement is the most common long-term saving objective for people, but it's far from the only financial purpose. Other goals tend to start coming up in your 30s, whether you're looking to save for your children's education or perhaps putting a down payment on your first house.

The key to saving in your 30s is careful planning and prioritization. Maybe you've always dreamed of owning a house but real estate prices make renting the smarter choice. Or perhaps your plan to have two kids turned into three and funding a 529 plan suddenly became far more important. Regardless of the scope of your goals, make sure you have them organized and prioritized so you see what's most important when you have some excess income to set aside for the future.

No matter what other financial goals emerge in your 30s, continue saving aggressively and maxing out contributions to your various retirement savings vehicles. If your yearly take-home is higher than it was in your 20s, you should consider increasing your forced saving rate as you get older and start pulling in more income. Always look at an income increase as an opportunity to put more money toward retirement without decreasing your quality of life.

In Your 40s: Keep an Eye Toward the Horizon

Your income should still be growing throughout your 40s, but don't let your lifestyle grow even faster. There are several financial demands during this stage of your life, and you must have enough left over to fund retirement accounts, college savings accounts, and taxable investment accounts. Use your 40s to save aggressively and begin sizing up your financial trajectory to ensure it meets your goals.

In most cases, your 40s are an excellent time to start reducing your exposure to risk in your portfolio. Depending on your target retirement age, that could mean decreasing your stock holdings and investing in other uncorrelated asset classes, but it's likely just a matter of appropriate diversification.

If you haven't started estate planning, now is the time to protect your assets and ensure they get passed on to your loved ones in the event life takes an unexpected turn. Your estate will include documents such as a will that outlines your financial allocations and instructions; a living will that describes your wishes in light of unexpected medical occurrences; healthcare power of attorney to name the executor of these wishes; and a trust to protect your estate from taxes and detail the distribution schedule of your assets.

Your 40s are far from a ripe old age, but an estate plan should be a high priority for people in this life stage. It's crucial to plan for the unexpected and adequately protect the wealth you've created for your family.

In Your 50s: Make Necessary Adjustments

In your 50s, retirement starts to feel less like an intangible idea. It's not in your immediate future, though, which is why this time is critical for making a renewed assessment of your financial outlook and instituting appropriate adjustments to help you reach your goals.

One of the most significant decisions you'll need to make relates to the timing of your retirement. Maybe you enjoy what you do and want to keep working in some fashion for longer. Or perhaps you've worked hard and saved extra to retire early and get to spend more time with the people you love.

Either way, being in this age group allows you to make catch-up contributions to many of your savings vehicles, which is a good idea whether you need to "catch up" or not. If you're age 50 or older in 2021, you can contribute an additional $6,500 to your 401(k) — while your IRA allows an additional contribution of $1,000.

It's crucial to contribute as much as possible to tax-advantaged accounts. For starters, you're almost certainly going to be in a higher tax bracket in your 50s than you were when you started your savings journey. Furthermore, anything contributed to these accounts can also reduce an investor's amount of taxable income. You might want to own additional alternative investments that will help minimize your tax liability, but be mindful that you should begin adjusting your level of risk in your portfolio downward the closer you get to retirement age.

In Your 60s: Enjoy the Fruits and Start Giving Back

Research from the Life Insurance and Market Research Association (LIMRA) indicates that 51% of Americans retire between 61 and 65. It would help if you had already made plans regarding the timing of your retirement, but it's important to crunch the numbers again so you can make any necessary adjustments to your plan.

Many retirees opt to continue doing some part-time work, but the change from full-time to part-time work usually results in a lower income. It might be smart to take advantage of the drop to a lower tax bracket by converting part of your IRA to a Roth IRA each year. Because the contributions you made to your IRA were tax-deferred, you'll need to pay income taxes on the portion you're converting to a Roth. That said, your reduced income might make this payment a worthwhile expense: The conversion will allow you to either make tax-exempt withdrawals from your Roth IRA later on or pass on this tax-exempt asset to your heirs.

Many people are more concerned about having enough money to cover expenses when they no longer work, but one of the primary joys of a well-planned retirement is the ability to give generously to the organizations and causes that you're passionate about. If you're charitably inclined, opening up a donor-advised fund can help you make efficient donations of cash, stocks, or other assets. Contributions to donor-advised funds can be up to 60% of your adjusted gross income (AGI), and they're tax-deductible in the year they're made. As a result, they're a fantastic tool to generate an upfront tax deduction in a year when your income was unusually high and create the flexibility for you to contribute to your favorite causes at a time of your choosing.

In Your 70s and 80s: Withdraw and Make Estate Adjustments

As your withdrawals continue deeper into retirement — and perhaps increase with inflation — the base of assets you rely upon may be declining. This is a morbid topic, but it is often worth modeling some scenarios to understand your risk of running out of money before you die.

If you live much longer than expected, this "longevity risk" may empty your portfolio too soon. If you get sick and need long-term care, your risk of running out of money could also increase. Modeling such scenarios is important to do early and often so you can make any necessary lifestyle adjustments before it's too late to make any impact.

Other retirees may have a different problem: the looming tax bill approaching for their estate and heirs. You may have a large traditional IRA that will need to be distributed in a short period of time by your heirs with potentially large tax consequences. You may own an investment portfolio with a value that exceeds the tax-exempt limit at the federal or state level. You may own non-liquid or complex investments, which will be a time-consuming task for your heirs to manage after your death.

If you haven't done so already, now is the time to simplify your financial life and take steps to reduce the potential tax liability of your estate. This may involve Roth IRA conversions, making annual gifts to children and grandchildren, or establishing a mechanism to pass part of your estate onto your favorite charities.

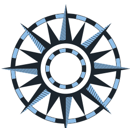
Stay Focused on Your Finances

It's only human to compare ourselves with friends and neighbors. As you consider applying the information above to your investment practices, understand that comparison is one of the most dangerous things you can do financially. Instead of "keeping up with the Joneses," it's your job to worry about yourself and your family while making the best financial decisions for your specific circumstances.

When you see people doing something different with their money, remember that you probably know little about their full financial circumstances. If someone in your social circle is bragging about outsize investment returns, realize that they probably took excessive risks to get them. The right way to invest at any age will always be the approach that accounts for your unique situation.

Keep in mind that your situation might differ, and the best way to know if you're on the right track is to sit down with a qualified financial advisor and talk about your goals and expectations for the future.

To make sure your saving and investment strategies reflect your situation, goals, and aspirations, reach out to us to speak to a financial planner — or go to pekinhardy.com to learn more.



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