DIRECTNEWS
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Don’t Have a Mid-Career Saving Crisis

Life can get in the way of saving enough for retirement, especially when you are busy with your job, family, and the other things that are important to you right now. However, keep in mind that your future financial security may depend on how much you save during your working years. Avoid getting so caught up in what's going on today that you neglect to prepare for tomorrow.

Dueling Goals

If one of your financial goals is to help your children pay their college costs, it's likely that those expenses will occur before you retire. You may even consider waiting to save more for retirement until after your kids' college tuition is paid. However, if you keep putting saving for retirement last on your list of financial priorities, you may not have time to save enough for your retirement.

If you have to choose between funding your retirement and funding your children's college education, keep in mind that you're probably going to need a lot more money for a comfortable retirement than your kids will need for college. When the time comes for college, your children may qualify for financial aid. And they can always pay some of their college costs by working part-time while in school.

No Time to Lose

You may reach your mid-career years and realize that life has gotten in the way and you don't have as much saved for retirement as you'd like. Don't panic. You still could have several years left to accumulate money in your plan account. Increasing the amount you contribute by even a small amount potentially can have a big impact on your account value at retirement. The more money you save now, the better off you're likely to be later on. And the sooner you start saving more for retirement, the more time your money will have to benefit from potential compounding.

Increasing contributions now may mean more money at retirement.[1]

	Saving at Same Rate	Increased Savings Rate
Account Value at Age 40	$50,000	$50,000
Average Annual Total Return	6%	6%
Monthly Amount Contributed from Age 40 to 65	$100	$250
Account Value at Age 65	$292,548	$396,497

Put Your Plan to Work

It's easy to save more for your future. Once you decide to increase your contribution amount, that money will be automatically deducted from your paycheck each pay period and put into your plan account where you won't be tempted to spend it on anything else.

Consider maintaining a portion of your portfolio in stock investments because of their growth potential.[2] Though the stock market can be volatile over the short term, stocks have historically produced higher long-term returns than the other major asset classes. (Past performance is no guarantee of future results.) When you are in your mid-career years, you still may have several years left before you plan to retire to recover from any market downturns that occur.

Your situation is unique, so consider consulting a professional before taking action.

[1]Source: DST Systems, Inc. This is a hypothetical example used for illustrative purposes only. It is not representative of any investment vehicle. It assumes monthly compounding. Your investment results will be different. Tax-deferred amounts accumulated in the plan are taxable on withdrawal, unless they represent qualified Roth distributions.

[2]Investing in stocks involves risks, including loss of principal.

Frequently Asked Retirement Income Questions

When should I begin thinking about tapping my retirement assets & how should I go about doing so?

The answer to this question depends on when you expect to retire. Assuming you expect to retire between the ages of 62 and 67, you may want to begin the planning process in your mid-to-late 50s. A series of meetings with a financial professional may help you make important decisions such as how your portfolio should be invested, when you can afford to retire, and how much you will be able to withdraw annually for living expenses. If you anticipate retiring earlier, or enjoying a longer working life, you may need to alter your planning threshold accordingly.

How much annual income am I likely to need?

Financial professionals typically suggest that many people are likely to need between 60% and 80% of their final working year's income to maintain their lifestyle after retiring. Low-income or wealthy retirees may need closer to 90%. Because of the declining availability of traditional pensions and increasing financial stresses on Social Security, future retirees may have to rely more on income generated by personal investments than today's retirees.

How much can I afford to withdraw from my assets for annual living expenses?

As you age, your financial affairs won't remain static: Changes in inflation, investment returns, your desired lifestyle, and your life expectancy are important contributing factors. You may want to err on the side of caution and choose an annual withdrawal rate somewhat below 5%; of course, this depends on how much you have in your overall portfolio and how much you will need on a regular basis. The best way to target a withdrawal rate is to meet one-on-one with a qualified financial professional and review your personal situation.

When planning portfolio withdrawals, is there a preferred strategy for which accounts are tapped first?

You may want to consider tapping taxable accounts first to maintain the tax benefits of your tax-deferred retirement accounts. If your expected dividends and interest payments from taxable accounts are not enough to meet your cash flow needs, you may want to consider liquidating certain assets. Selling losing positions in taxable accounts may allow you to offset current or future gains for tax purposes. Also, to maintain your target asset allocation, consider whether you should liquidate overweighted asset classes. Another potential strategy may be to consider withdrawing assets from tax-deferred accounts to which nondeductible contributions have been made, if you have them, such as after-tax contributions to a 401(k) plan.

If you maintain a traditional IRA, a 401(k), 403(b), or 457 plan, in most cases, you must begin required minimum distributions (RMDs) after age 72.[1] The amount of the annual distribution is determined by your life expectancy.

When crafting a retirement portfolio, you need to make sure it is positioned to generate enough growth to prevent running out of money during your later years. You may want to maintain an investment mix with the goal of earning returns that exceed the rate of inflation. Dividing your portfolio among stocks, bonds, and cash investments may provide adequate exposure to some growth potential while trying to manage possible market setbacks.

[1]This age was increased from 70½, effective January 1, 2020. Account holders who turned 70½ before that date are subject to the old rules. The CARES Act waived certain required minimum distributions in 2020.

Qualified Plan Limitations: Update for 2021

Contribution Limits		
Year	**Elective Deferral Limit**	**Additional Catch-Up Limit***
2021	$19,500	$6,500

*If allowed under the terms of the plan, applies to participants who reach age 50 by the end of 2021.