Key Questions

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Spend or Save? Balancing Today's Priorities to Build a Secure Retirement Future.

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The Key Wealth Institute is a team of highly experienced professionals from across wealth management, dedicated to delivering commentary and financial advice. From strategies to manage your wealth to the latest political and industry news, the Key Wealth Institute provides proactive insights to help grow your wealth.

When it comes to building a secure and prosperous financial future, one money habit stands out above the rest. In fact, it is the one thing that we have complete control over - Saving. Markets will go up or down. Interest will rise and fall. And political fights over debt ceiling or other policies will occasionally creep up in the headlines. We are powerless over the timing or occurrence of geopolitical events, natural disasters, pandemics, or financial crises that could occur in our lifetimes. Yet, how much we spend, and therefore, how much we save, is entirely within our control.

Saving is harder than it seems. We all understand the importance of contributing to a retirement plan or investing an end-of-the-year bonus, yet our tendencies to prioritize spending now often take precedence. We like to travel, go out to dinners, or buy that new shiny smartphone. There is absolutely nothing wrong with spending money. We buy things or spend on experiences, to enjoy time with our friends and family, or pursue our interests and hobbies. In other words, spending can make us happier, more fulfilled, and satisfied.

The key to building a secure retirement future is finding the right balance between spending and saving. Begin saving early (even if the initial amount seems insignificant) and save systematically (regardless of market conditions). As Albert Einstein once said, “compound interest (appreciation) is the eighth wonder of the world. Those who understand it, earn it. Those who do not, pay it.” Time is a saver’s/investor’s best friend. And when we combine a systematic saving/investing strategy with time, the magic of compounding can help us accumulate the financial resources we will need to live a good life in retirement.

So, are we saving enough? According to recent retirement surveys* 52% of Americans will need to make modest to significant adjustments to their retirement lifestyle.

Are you on track to maintain your lifestyle in retirement? To get the best answer to this question, we recommend a retirement planning analysis to help forecast future retirement needs and determine the optimal savings strategy. But, a quick calculation will help you estimate progress toward achieving retirement security. (Please note that below is a “rule of thumb” estimate and is not intended as advice or a guarantee of future outcomes. Results will vary based on a variety of factors. Consult your financial advisor for a comprehensive review of your financial situation.)

- Start with your household income today.
    - If you are 30 years old, multiply your household income by 1.
    - If you are 40 years old, multiply your household income by 3.
    - If you are 50 years old, multiply your household income by 6.
    - If you are 60 years old, multiply your household income by 8.

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Let's take a look at an example. Jen is 50 and single, looking to retire at age 67. Her salary/income is $150,000. If we multiply the salary by 6, the total amount Jen should have in her retirement accounts today is $900,000. This hypothetical assumes that Jen will continue saving 15% of annual income until retirement, will receive Social Security, and will live until age 92.

If you are not on track, there are several steps worth considering:

Budget. For most of us, this is not a "fun" exercise. So, allow me to recommend a quicker and simpler budget technique. For inflows, just total all of the income over the past 12 months. For outflows, add only the essential expenses (e.g., rent, mortgage, tax payments, insurance premiums, food, clothing, etc.). Essentials are non-negotiable expenses and are necessary to maintain a quality lifestyle. The difference between total income and total essential expenses will provide a total amount saved and/or spent on discretionary (non-essential) expenses.

Maximize your employer retirement plan savings. First, many employer sponsored retirement plans (e.g., 401k plans), offer matching contributions. At minimum, contribute the percentage of income that allows you to benefit from a matching contribution from your employer (AKA, free money). Second, let us assume you are contributing 5% of income today; your 401k plan may offer an automatic contribution increase. For example, set automatic increase at +1% annually – meaning, in this example, 6% contribution next year, 7% the following year, and so on. Gradual increases in contributions are easier to absorb and balance with current spending.

If employer retirement plan is not an option for you, **consider Traditional or Roth IRA accounts.**

Review your risk, asset allocation – especially in retirement accounts. Most retirement plans default to either age-based or diversified growth investment models. We suggest a regular review of investment options available inside your retirement account to ensure that your investment choices are aligned with your financial goals and risk tolerance.

Finally. **Make a plan.** A comprehensive financial plan will offer recommendations tailored to your financial situation. While no financial plan can guarantee future outcomes, it can provide clarity, and a higher degree of predictability. Most planning tools today are interactive and offer "what-if" scenarios to help investors explore and compare different options.

Given that money is a finite resource, whether we decide to spend or save a dollar, there are consequences to that decision. Imagine for a moment that we spend every dollar we earn. What would that mean if we are unable to work and earn income in future years? How would we pay for the most basic needs? On the other hand, imagine that we saved every available dollar (after basic expenses). Could we enjoy our lives, be happy, feel fulfilled? Probably not. Fortunately, this is not an "all or nothing" proposition. We can do both. With a little planning and a bit more discipline, we can enjoy today and plan for a prosperous tomorrow.

*Source: Fidelity Investments

For more information, please contact your advisor.

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