Retirement Part 3: How can I maximize my savings?

DECAL
Thriving Child Care
Business Academy

Learn strategies to make the most out of your retirement plan.

Introduction

Once you've decided to select a retirement plan and found a plan that works for your needs, it is time to start saving. But how do you decide the best way to approach your plan for saving? By considering where you are in your career, how you can boost your savings, and what the impacts of saving are on your finances, you can develop a plan to maximize your savings and get the biggest bang for your buck.

How much should I save?

Most financial planners suggest having enough funds in your retirement to provide for 80% of your income after you stop working. For example, if you currently make $45,000 you'd want to save enough to draw $33,280 out of your retirement a year. The reason most financial planners suggest only 80% of your income after you stop working is that generally, retirees have access to social security and a lower-cost lifestyle (such as being an "empty nester").

Ideally, you should start as early as possible, around age 25, but if you are older, you can still save, you'll just want to put aside more of your current income each year for retirement.

The best way to reach your retirement goal is to try to set aside 10-15% of your annual salary for retirement. This includes any contribution you may get from your company. For example, your company may match the first 3% of contributions you make to your retirement. In this case, you would want to contribute at least 7% (your 7% plus the company match of 3% gets you to the 10% for the year).

Not everyone can afford to make a 10-15% contribution to their retirement fund when they first start to contribute, or even get there over time, so you may want to set a number that is as close as you can afford and then increase it a little each year. Even

increasing your retirement savings by 1% a year, through compound interest, will help you make progress toward your goal. Consider cutting unnecessary costs or creating efficiency through automation and reallocating the money saved to your retirement contribution.

What are some tips for boosting my retirement savings?

Automatic Deposits

One of the easiest ways to grow your savings is through **automatic, recurring deposits**. These deposits can often be administered through the company you use for your retirement program (such as Fidelity or Vanguard), so a designated amount of your paycheck is deposited seamlessly into your retirement account on a regular schedule.

Gradual Increases

Financial planners recommend **increasing the amount saved in your retirement account each year**. There are several simple ways to do this that will not have a dramatic effect on your day-to-day budget or spending, like:

- Increasing automatic contributions by 1-2% a year;
- Saving a portion of any raise or bonus you receive;
- Saving unexpected income like lottery winnings, inheritance, property sales, etc.;
- When you pay off a loan – such as your car – keep making those payments but redirect them to your retirement account; and
- Setting aside a portion of your next tuition rate increase for retirement.

Catch-up Contributions

If you are 50 years old or older and have not been able to save as much as you would have liked, **catch-up contributions** can help boost your savings as you get closer to retirement. In most plans, these contributions can exceed standard limits and are specifically designed to help older workers set aside more money to meet their retirement goals. Catch-up contributions are a valuable savings tool that should be taken advantage of if possible. Starting in 2024, there will be additional catch-up contributions allowed for individuals over the age of 60.

Pre- and Post-tax Mix

Though it might seem overwhelming at first, you should also consider working toward **a mix of pre-tax and post-tax** retirement plans to truly maximize your savings impact, if at all possible. As we mentioned earlier, retirement plans have two types of taxation based on the type of plan:

- Pre-tax plans (also called “tax deferred” plans) such as a Self-Employed retirement fund (called a SEP IRA) or a 401k allow you to deduct your contributions from your taxes now. When you retire, you have to pay taxes on your withdrawals. For example, let’s say you put in $1,000 today into a pre-tax

SEP IRA and it grows to $4,661 in 20 years. This year you would deduct taxes on the $1,000 but when you retire, you would pay taxes on the full $4,661 as you take it out of the SEP.

- Post-tax plans (also called “tax-exempt” plans) tax you on your contributions today but not when you retire. Let’s take the same example. This time you put the $1,000 in a Roth IRA, which is a post-tax plan, and it grows to $4,661. In this case, you pay taxes on the $1,000 today but don’t pay any taxes in retirement as you draw upon the $4,661.

Depending on your age, it can be more beneficial to have more savings dedicated to one or the other. For example, for younger business owners and employees (such as those in their 20s and 30s), post-tax plans can be very attractive since you tend to be earning less (so the value of a deduction today isn’t as high) and you will have many years of compound interest that would be tax-free later. In contrast, if you are a business owner or worker who is in their late 40s and older you may want more pre-tax contributions to save money now, but you still will want some post-tax so that when you retire there is some non-taxable income. Over time, varying your vehicles for saving, especially with a mix of pre- and post-tax accounts, can help you save even more.

Index or Retirement Date Funds

Use index or retirement date funds and don’t make many changes. Warren Buffet, one of the nation’s most successful investors said “If investing is entertaining, if you're having fun, you're probably not making any money. Good investing is boring.” When it comes to your retirement investments you can manage them yourself or pay someone to do it on a regular basis. However, research shows some of the best investments are mutual or exchange-traded funds where there are teams of financial experts managing them for you. Index funds have a blend of the latest stocks and bonds that match current market trends and you don’t have to do anything as the market changes, the fund team does it all. Retirement date funds have managers who adjust investments based on the targeted retire,emt date. A fund that is targeting a retirement date of 2050 will have more aggressive investments now (to increase your savings) but switch to ones that are less risky as 2050 starts to roll around (so that you don’t risk losing your savings in an economic downturn).

What else should I know?

Retirement funds get special treatment for taxes to encourage you to save for the future. It isn’t surprising that it’s not easy to take your money out ahead of retirement. This is for two reasons. First, as you’ve seen there are tax credits and deductions as an incentive to allow your money to build over time for retirement. Second, it helps you resist the temptation of removing these funds for short-term uses or emergencies and instead keeps them safe for your future.

Generally, if you withdraw before the age of 59 ½ you will be subject to income tax on the funds and an additional 10% penalty (for a SEP or Simple IRA, this penalty is 25% if made in the first two years of joining the retirement plan). So, if you are in the 22% tax bracket and took out $1,000, you would have to pay $220 in taxes and a $100 penalty for a total of $320, leaving you with just $680 cash in hand.

There are hardship allowances for early withdrawal if the account holder dies or for certain health issues, such as:

- Unreimbursed medical expenses that exceed 10% of your adjusted gross income (7.5% if your spouse is age 65 or older);
- Your cost for your medical insurance while unemployed; or
- You are disabled.

You can also have a penalty-free withdrawal of funds for a SEP or Simple IRA if you plan to use the funds for college or university or to buy, build, or rebuild a first home.

If you have a 401(k) plan you can also loan yourself money against the amount in your retirement. A 401(k) loan should be considered very carefully since you're literally borrowing against your future. Most financial advisors suggest only using a loan if it is going to be paid back within 1 year and you are sure you will be able to pay it back. Typically, you can borrow up to 50% or $50,000 of your savings, whichever is less. Though you must pay interest, this goes into your account (so you are paying yourself). Additionally, the origination fees (the ones to get the loan) tend to be lower than many bank loans.

Whether you choose to seek professional financial advice or take a do-it-yourself approach, it is important to develop a plan for your approach to saving for retirement. Ask yourself the following questions:

1. How many more years do I have until I want to retire? This will tell you how long you have to save.
2. How much money will I need in retirement? Remember, most experts recommend 80% of your annual income per year after you've retired.
3. How much do I need to save each year? Consider how much you will need to contribute to your retirement account(s) to reach your savings goal. You can find many examples of retirement savings calculators online to help you plan.
4. How does my plan need to change over time? If you are unable to save as much as you prefer to get started, don't worry! Start saving what you can and plan to reassess on a regular basis.

Remember, everyone starts somewhere when it comes to savings. Taking one step at a time and staying true to your plan will help you move closer and closer to your goals for retirement.

Additional Resources

If you have questions or need help, assistance is available.

GaPDS Website

DECAL Thriving Child Care Business Academy Website

To Find Other Study Guides: Click on Resources on the Academy home page

To Find Training: Click on Trainings on the Academy home page

To Register for Training: Click on Schedules & Registration on the Academy home page

To Sign Up for Study Groups: Fill out the Intake Assessment

For questions about coaching or study groups: Email GAcoaching@civstrat.com

To Find Other ECE Resources: Visit the DECAL Website

For General Questions about the Academy: Email thriving@decal.ga.gov

For More Information:
Family Child Care Learning Home Rules and Regulations

Child Care Learning Center Rules and Regulations

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