Quarterly Retirement Review

Published quarterly for SLR retirement plan participants and individual investors.

S.L. Reed & Company

Inside This Issue

Accounts to Enhance Your Retirement Outlook

1. Start with your 401(k) plan at work. In 2022, you can contribute up to $20,500 if you are under age 50 and $27,000 if you will be age 50 or older during the year. Even if your company doesn't offer a match, consider saving 6% of your salary to start. Look into features that help you automatically increase your contribution rate over time.
2. Fund an individual retirement account (IRA). If you don't have access to a workplace plan or if you want to supplement your savings, consider an IRA. In 2021 and 2022, you can contribute up to $6,000 ($7,000) if you are age 50 or older) to an IRA. And you may receive a valuable tax deduction.
3. Consider a Roth option. While a Roth IRA doesn't provide you an immediate tax benefit, it can provide tax-free income in retirement. It can also add a different tax treatment alongside any traditional retirement account assets and taxable investments.

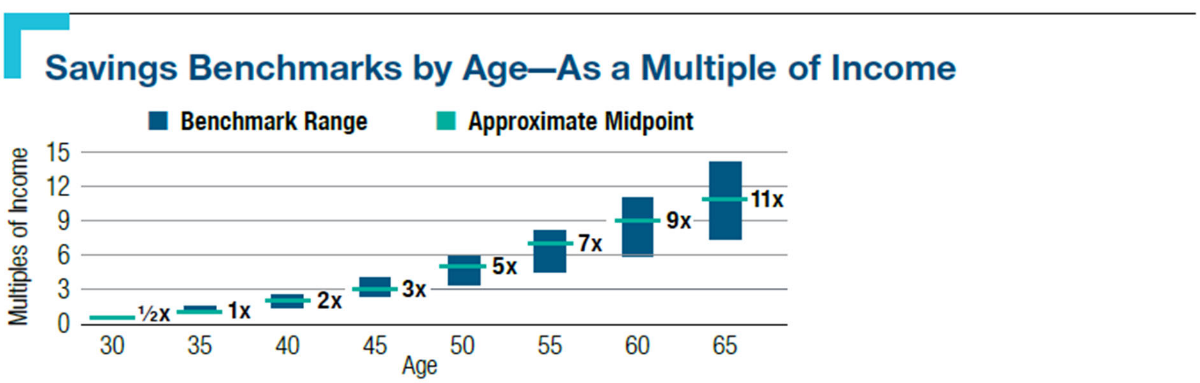
   You can contribute in two ways:
   - Through a Roth IRA. But take note that the ability to contribute is phased out if your income exceeds certain levels
   - Through a 401(k) or 403(b) plan. You may be able to direct contributions to a designated Roth account if your workplace plan offers this option. In this case, contributions are not limited by your income level.
4. See if your spouse is eligible for a spousal IRA. If your spouse doesn't have their own earning income (or very little), they can fund their own Traditional or Roth IRA using your compensation.
5. Self-employed? Consider saving in a simplified employee pension plan IRA (SEP-IRA). This type of tax-deductible IRA is easy to set up and maintain, and it has very generous contribution limits. In 2022, you can contribute the lesser of 25% of your compensation or $61,000 ($58,000 for 2021). A SEP-IRA can also work for people with a side job.

6. Explore a Rollover IRA. Because cashing out of your employer plan may result in paying taxes and a penalty, you have three options that keep your money tax-deferred when you change jobs. You can leave it with your previous employer (if permitted), roll it into your new 401(k) plan (if permitted), or roll it into an IRA. If you wish to consolidate all your 401(k) balances in a single account, a Rollover IRA may be a good option
7. Funding a health savings account (HSA) offers triple tax advantages. Your contributions are tax-deductible, your money can grow tax-deferred, and when you withdraw the money (for qualified health care expenses), you do so tax-free. If you participate in a high-deductible health plan (HDHP), you can contribute ($3,650 for individual coverage and $7,300, respectively, in 2021). While HSAs can cover immediate health care costs, they are also a way to invest tax-free for health expenses in retirement.
8. Invest in a taxable nonretirement account. While it's important to utilize the tax advantages of the accounts listed above, you may want savings that are more readily accessible. In addition to cash reserves for possible emergencies, you could supplement your retirement savings with investments for the longer term. A combination of taxable, tax-deferred, and tax-free sources of savings just might be the recipe for retirement success.

When it comes to saving for your retirement, it's never too early to start tracking your progress. No matter your age, taking stock of where you stand can help you plan more successfully.

How to stay on track:

Benchmarking your savings by age (see chart below) helps prompt and guide the right actions. If you're not on track, don't worry. Focus on the incremental steps you can take to rectify the situation:



Benchmarks are based on a target multiple at retirement age and a savings trajectory over time consistent with that target and the savings rate needed to achieve it. Household income grows at 5% until age 45 and 3% (the assumed inflation rate) thereafter. Investment returns before retirement are 7% before taxes, and savings grow tax-deferred. The person retires at age 65 and begins withdrawing 4% of assets (a rate intended to support steady inflation-adjusted spending over a 30-year retirement). Savings benchmark ranges are based on individuals or couples with current household income approximately between $75,000 and $250,000. Target multiples at retirement reflect estimated spending needs in retirement (including a 5% reduction from preretirement levels); Social Security benefits (using the SSA.gov Quick Calculator, assuming claiming at full retirement ages, and the Social Security Administration's assumed earnings history pattern); state taxes (4% of income, excluding Social Security benefits); and federal taxes. We assume the household starts saving 6% at age 25 and increases the savings rate by 1% annually until reaching the necessary savings rate. Benchmark ranges reflect the higher amounts calculated using federal tax rates as of January 1, 2020, or the tax rates as scheduled to revert to pre-2018 levels after 2025. Inflation adjustments to brackets effective in 2021 do not significantly affect the analysis and, therefore, are not reflected. Approximate midpoints for age 35 and older are rounded up to a whole number within the range.

Source: T. Rowe Price

If your company offers a match in your workplace retirement plan, make sure you're taking advantage of the full match.

If you can increase your savings rate right away, that's ideal. If not, gradually save more over time.

If you have a company retirement plan that enables automatic increases, sign up.

If you're struggling to save, many employers offer financial wellness programs or other online tools that can help with budgeting and basic finances.

Use the savings benchmarks below to get more comfortable with planning for retirement. Then go beyond the rule of thumb to fully understand your potential retirement expenses and income sources. In addition to your savings, think about what you're saving for and how you envision spending your time after years of hard work.

Higher Savings Limits

2022 Catch-Up Contribution Limits

Investors age 50 and older can save even more in the years leading up to retirement.

Account Type	Contribution Limit	Catch-Up Limit (for ages 50+)
401(k)	$20,500	$6,500
IRA	$6,000	$1,000

Source: T. Rowe Price

Take advantage of catch-up contributions:

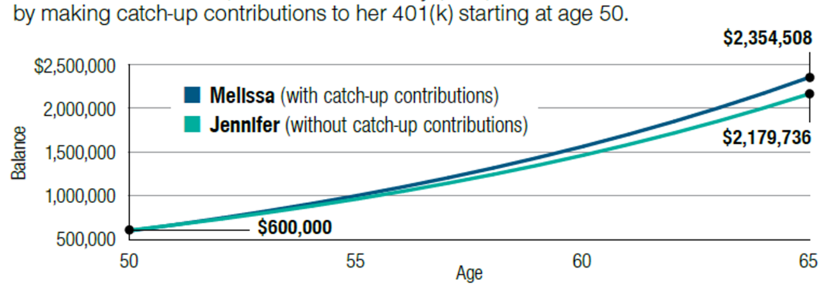
We join with many other investment advisors in suggesting that you save 15% of your annual income for retirement, including any employer match. One challenge can be the annual limits the IRS places on how much investors can contribute to tax-advantaged accounts. In 2022, the 401(k)-contribution limit will increase from $19,500 to $20,500, while the individual retirement account (IRA) contribution limit will remain $6,000. Fortunately, catch-up contributions allow individuals age 50 and over to contribute an additional $6,500 to their 401(k) plans each year, as well as an extra $1,000 across Traditional and Roth IRAs combined. (See the chart.)

Catch-up contributions offer a powerful boost:

In the years leading up to retirement, catch-up contributions can make a significant difference. Using the example of two investors, Melissa and Jennifer, take a look at the chart to see the benefit the catch-up effect can make:

The Catch-Up Effect

In the illustration below, Melissa saves nearly $175,000 more than Jennifer by making catch-up contributions to her 401(k) starting at age 50.



Assumes a 7% annual return, $19,500 annual contributions, and an additional $6,500 with annual catch-up contributions. All charts and tables are shown for illustrative purposes only and are not meant to represent the performance of any specific investment. All investments involve risk, including possible loss of principal.

Source: T. Rowe Price

How to catch up and get back on track:

First, make full use of 401(k) and IRA contribution limits to set aside 15% of your salary. If you're married, filing jointly but with only one spouse earning income, consider a spousal IRA to increase your contributions as a couple.

Second, try to gradually increase your contributions each year or earmark new flexibility in your budget toward your retirement accounts.

If you've been setting aside money in a taxable account, consider reallocating those contribution amounts to catch-up IRA or 401(k) contributions. This decision will depend on your situation, including how much you have already saved and the timing of your goals. If you have financial goals that will occur before retirement and already have saved a substantial amount in your tax-deferred accounts, then you might want to stay flexible with your savings plan by continuing to contribute to your taxable accounts.

Closing the savings gap:

The difference catch-up contributions could make for you depends on your savings gap and your ability to save more. Regardless, higher contribution limits could help you build savings in a Roth IRA to add flexibility in your retirement income plan. Whether or not catch-up contributions make sense, the age-50 milestone is an opportunity to evaluate your progress and celebrate your achievements.

Barron's Interview With Teresa Ghilarducci

According to Teresa Ghilarducci, a Stanford University economist who has been studying the U.S. retirement system for her entire career, 72% of Americans nearing retirement won't have enough money to maintain their living standards if they retire at age 65. And 50% of workers who work until they are 70 years old still won't have enough to maintain their living standard. She goes on to say that if a worker is 30 years old he or she should have the equivalent of their gross annual income in a retirement account. By the time you are 50 years old you should have eight times, and by time you are 65 you should have 10 to 12 times of your gross annual income.

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