Confused on How to Save for Retirement?

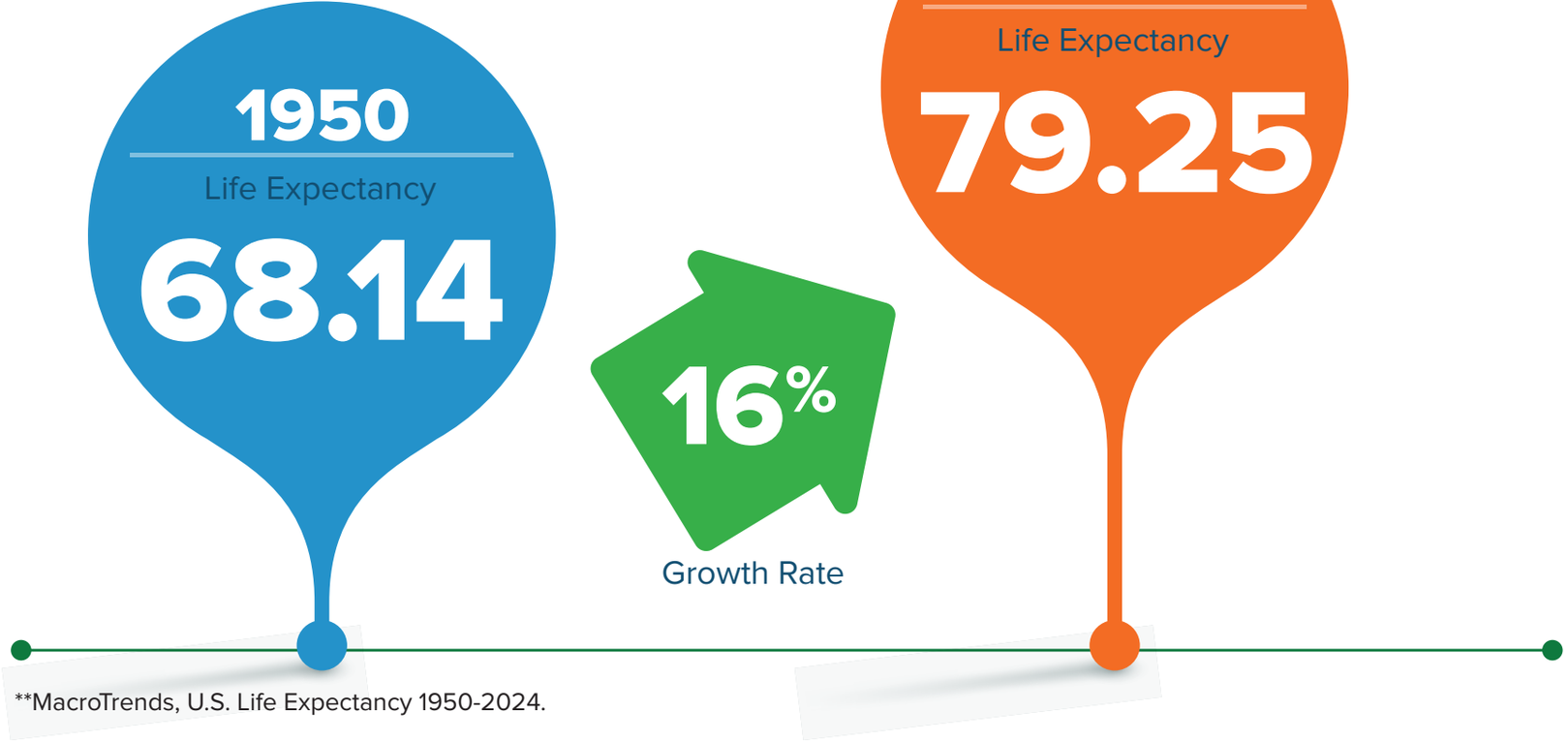
Americans are facing a retirement crisis. Even before 2022's stock market decline, nearly half of working Americans were on pace to miss the mark on their retirement savings.* Unfortunately, the lack of necessary funds will force some to work well past age 65 and others to seek assistance—from family and friends or the government—to make ends meet. Why has this problem gotten so out of hand?

*The National Retirement Risk Index: An Update From the 2019 SCF. Center for Retirement Research at Boston College.

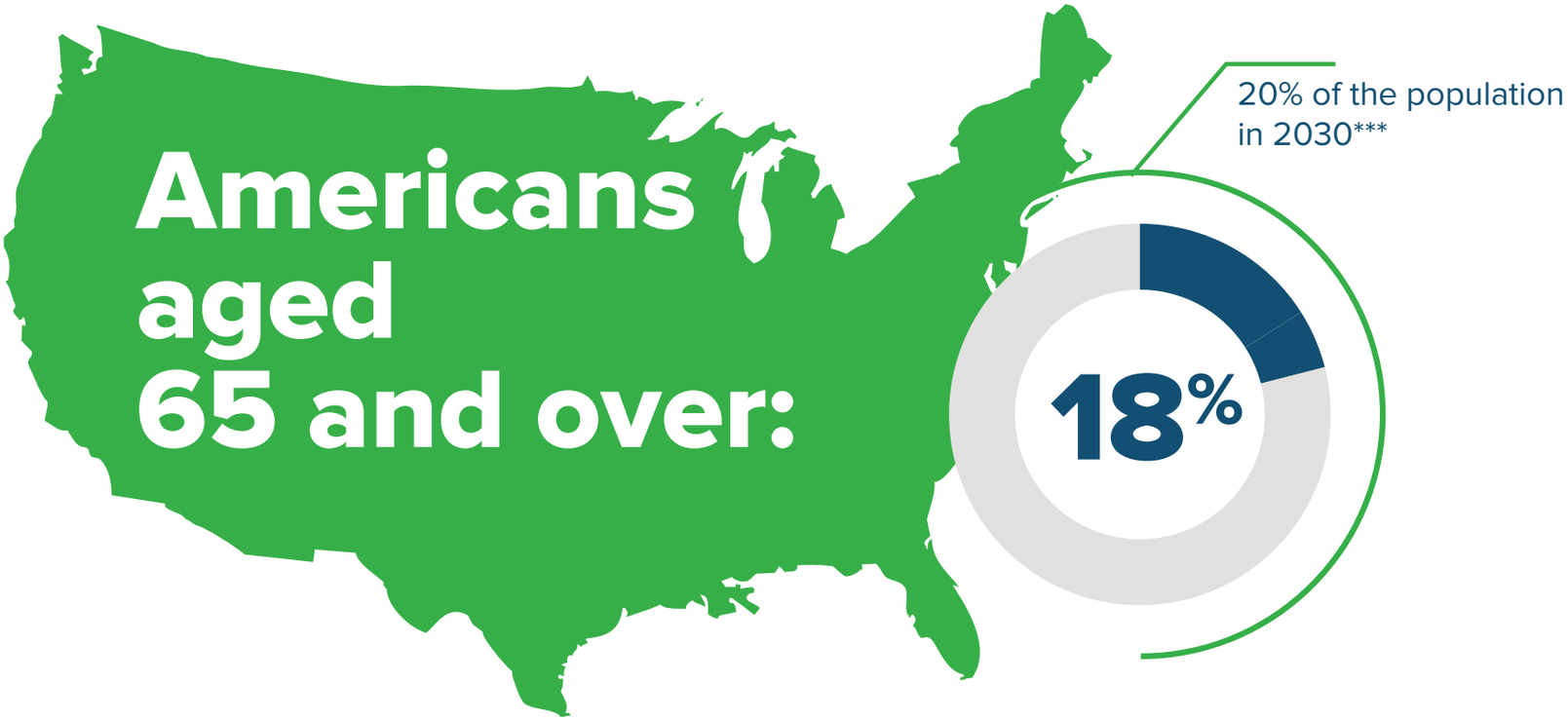
A longevity crisis

Living longer is a good thing. But it's also one of the reasons why retirees are running out of money.

A double-digit increase in life expectancy over the last 70+ years**



**MacroTrends, U.S. Life Expectancy 1950-2024.



***Center for Elders and the Courts, Demographics of the Aging Population.

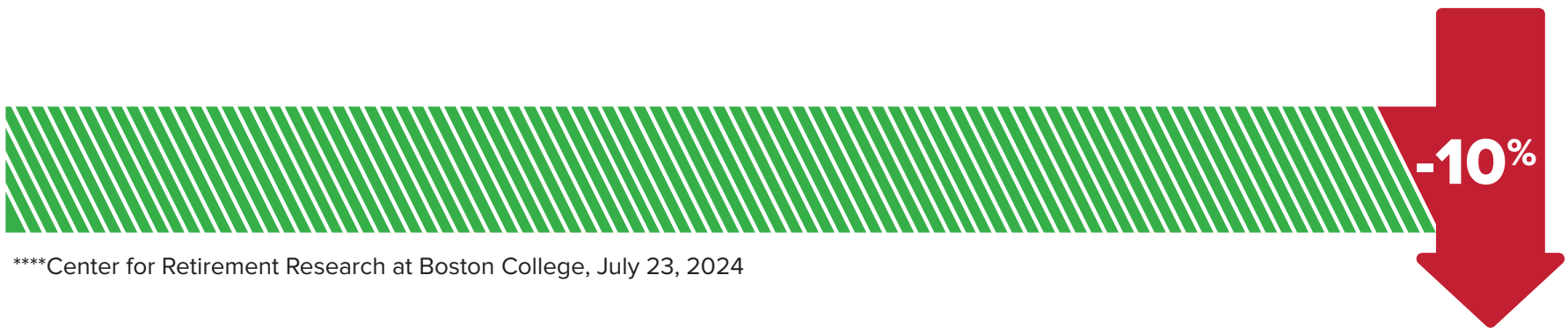
How much income do you need in retirement?

75%

According to T. Rowe Price, Americans need about **75% of their pre-retirement income**, on average, to lead to a comfortable retirement

Retirement preparedness is quite low

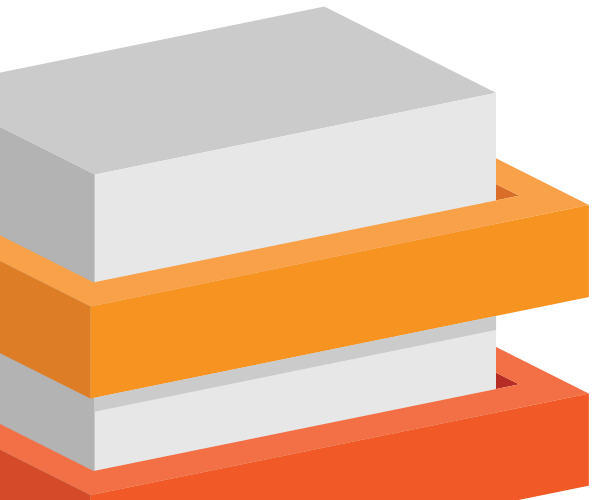
One study has shown that about **40% of working-age households** are “at risk” of falling more than **10%** short of the income they’ll need to retire comfortably.****



****Center for Retirement Research at Boston College, July 23, 2024

So how can you get prepared?

Save and invest for the long term! Whether you’re just starting your career or have been working for a while, the earlier you start to save, the higher the likelihood you will live a comfortable retirement. That’s because time is your best friend to grow your money through compounding. Below is a hypothetical showing the potential effects of compounding.



The Glorious Effects of Compounding

Starting Balance: $0

Time Invested: 30 Years

Annual Rate of Return:	6%
Annual Contribution:	$3,000

Results after 30 years invested

Total Contributions:	$90,000
Total Growth:	$147,147
Ending Balance:*****	**$237,147**

*****DISCLOSURE: This example is for informational purposes only and generates an outcome that is hypothetical in nature. It is not intended to provide investment advice, nor is it intended to indicate the performance, availability or applicability of any product or service. The intent of this example is to give a basic demonstration on the impact of compounding. Information is projected based on a $3,000 annual contribution invested in a strategy that provided a hypothetical annual return of 6% only. It does not take into consideration any person's unique circumstances that could (perhaps materially) impact actual returns. The accuracy of this example and its applicability to any individual's circumstances is not guaranteed. Results are hypothetical in nature. Prior to making any investment decisions, you should consult with an appropriate and qualified advisor about your unique situation.

What are your retirement savings options?

There are several savings vehicles that you could use. But some may be preferable to others—because they provide tax or other incentives to save. Here's a list of choice vehicles for retirement savings:

Contribute to your employer-sponsored retirement plan:
If you have a 401(k) or 403(b), before tax contributions directly from your paycheck lower your taxable income.

> **How much?** If you have a company match, hit that contribution minimum level to receive the full company match. It's free money you should take advantage of!

Consider an Individual Retirement Account (IRA):
If you're just starting out and your income falls below the allowable limit, we recommend a Roth IRA. A Roth may make sense early in your career as your tax rate tends to be lower. So although you don't get a tax break on your contributions, your money can grow tax-free forever! Later in your career, you may consider a traditional IRA instead. And depending on your income, you may receive a tax deduction for your contributions.

How much? You can also contribute up to $7,000 ($8,000 if older than 50) each year to an IRA.

Max out your 401(k) annual contributions:

Earlier we recommended hitting the limit to get the full company match. Now, if you are able, max out the annual amount you can contribute to a 401(k).

How much? In 2024, the max contribution limit is $23,000 ($30,500 if older than 50). You'll save more and may benefit from a lower taxable income too!

Invest in a taxable investment account:

If you still have available income for saving, consider putting it to work in the market in a taxable investment account. There's no tax benefit, but the more assets you invest and the longer the time you have, the greater the opportunity to compound your savings.

How much? Whatever funds you have that are not earmarked for short-term needs.

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