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Factors to Consider When Setting a Retirement Savings Goal

Many Americans realize the importance of saving for retirement, but knowing exactly how much they need to save is another issue altogether. With all the information available about retirement, it is sometimes difficult to decipher what factors will influence your specific situation.

Determining your savings target

One commonly cited guideline is that retirees will need approximately 80% of their pre-retirement salaries to maintain their lifestyles in retirement. However, depending on your own situation and the type of retirement you hope to have, that number may be higher or lower.

Here are some factors to consider when determining a retirement savings goal.

Retirement age: The first factor to consider is the age at which you expect to retire. In reality, many people anticipate that they will retire later than they actually do; unexpected issues, such as health problems or workplace changes (downsizing, etc.), tend to stand in their way. Of course, the earlier you retire, the more money you will need to last throughout retirement. It's important to prepare for unanticipated occurrences that could force you into an early retirement.

Life expectancy: Although you can't know what the duration of your life will be, a few factors may give you a hint. You should take into account your family history — how long your relatives have lived and diseases that are common in your family — as well as your own past and present health issues. Also consider that life spans are increasing with recent medical developments. More people will be living to age 100, or perhaps even longer. When calculating how much you need to save, you should factor in the number of years you expect to spend in retirement.

Future health-care needs: Another factor to consider is the cost of health care.

Health-care costs have been rising much faster than general inflation, and fewer employers are offering health benefits to retirees. Long-term care is another consideration. These costs could severely dip into your savings and even result in your filing for bankruptcy if the need for care is prolonged.

Lifestyle: Another important consideration is your desired retirement lifestyle. Do you want to travel? Are you planning to be involved in philanthropic endeavors? Will you have an expensive country club membership? Are there any hobbies you would like to pursue? The answers to these questions can help you decide what additional costs your ideal retirement will require.

Many baby boomers expect that they will work part-time in retirement. However, if this is your intention and you find that working longer becomes impossible, you will still need the appropriate funds to support your retirement lifestyle.

Inflation: If you think you have accounted for every possibility when constructing a savings goal but forget this vital component, your savings could be far from sufficient. Inflation has the potential to lower the value of your savings from year to year, significantly reducing your purchasing power over time. It is important for your savings to keep pace with or exceed inflation.

Social Security: Many retirees believe that they can rely on their future Social Security benefits. However, this may not be true for you. The Social Security system is under increasing strain as more baby boomers are retiring and fewer workers are available to pay their benefits. And the reality is that Social Security will likely replace just a portion of your income, which means you'll need to make up the difference from other sources.

Setting a savings goal can be a daunting task. Fortunately, you don't have to take it on alone. Your financial professional can help evaluate your situation and put together an appropriate savings strategy.

There is no assurance that working with a financial professional will improve investment results.

Tax Credit for IRAs and Retirement Plans (Saver's Credit)

What is it?

The Economic Growth and Tax Relief Reconciliation Act of 2001 made significant changes to IRAs and retirement plans. One provision of the act allows some low- and middle-income taxpayers to claim a partial, nonrefundable income tax credit (the "saver's credit") for contributing to certain tax-deferred retirement savings vehicles. The credit can be applied against the taxpayer's regular income tax liability (or minimum tax liability, if paying under the alternative minimum tax system) and is in addition to any income tax deduction the taxpayer receives for making the contribution. The purpose of this provision is to encourage retirement savings among those who, typically, can least afford to save.

What retirement savings vehicles are eligible for the tax credit?

The tax credit is available for elective contributions made to traditional IRAs, Roth IRAs, and the following employer-sponsored retirement plans: Section 401(k) plans, Section 403(b) annuities, Section 457(b) plans, SIMPLE plans, and SEP plans. Voluntary after-tax employee contributions made to a qualified retirement plan also qualify for the credit.

Who is eligible for the tax credit?

Not everyone who contributes to the retirement savings vehicles mentioned previously is eligible for the tax credit. To claim the credit, you must be at least 18 years old and not a full-time student or claimed as a dependent on another taxpayer's income tax return. In addition, there are income requirements that must be met. If you and your spouse file a joint income tax return, you can claim the credit for 2024 only if your combined adjusted gross income (AGI) for the year is $76,500 or less. If you file as head of household, you can claim the credit only if your AGI is $57,375 or less. Finally, if you file as an unmarried taxpayer or married filing separately, you can claim the credit only if your AGI is $38,250 or less.

How much is the tax credit?

The maximum annual contribution eligible for the tax credit is $2,000, and the maximum credit rate is 50% of the amount contributed. This means that the maximum possible credit that a taxpayer could receive in one year is $1,000. However, not everyone who qualifies for the credit will be able to claim the full credit. The specific amount of your credit (if any) in any year will depend on three factors: your AGI for the year, your income tax filing status for the year, and the amount of your IRA or retirement plan contribution for the year. The following table for 2024 provide the credit rates based on AGI and filing status:

2024

Joint Filers	Heads of Household	Single Filers	Credit Rate
$0-$46,000	$0-$34,500	$0-$23,000	50% of contribution (up to $2,000)
$46,001-$50,000	$34,501-$37,500	$23,001-$25,000	20%
$50,001-$76,500	$37,501-$57,375	$25,001-$38,250	10%
Over $76,500	Over $57,375	Over $38,250	0%

Finally, be aware that the amount of any contribution eligible for the credit may be reduced by any taxable distributions that you and your spouse receive from any of the retirement savings vehicles mentioned previously (or from any other qualified retirement plan). This reduction applies to distributions received during the same tax year that the credit is claimed, the two tax years prior to the tax year that the credit is claimed, and during the period after the end of the tax year and prior to the due date for filing your tax return for the year. In the case of a Roth IRA, this rule applies to any distributions received, whether taxable or nontaxable.

How does inflation affect me?

Are you saving for retirement? For your children's education? For any other long-term goal? If so, you'll want to know about something that can impact your savings: inflation. Inflation is the increase in the price of products over time. Inflation rates have fluctuated over the years. Sometimes inflation runs high, and other times it is hardly noticeable.

The short-term changes aren't the real issue. The real issue is the effects of long-term inflation.

Over the long term, inflation erodes the purchasing power of your income and wealth. That means that even as you save and invest, your accumulated wealth buys less and less, just with the mere passage of time. And those who put off saving and investing are impacted even more.

The effects of inflation can't be denied — yet there are ways to fight them. You should own at least some investments whose potential return exceeds the inflation rate. A portfolio that earns 2% when inflation is 3% actually loses purchasing power each year. Though past performance is no guarantee of future results, stocks historically have provided higher long-term total returns than cash alternatives or bonds. However, that potential for greater returns comes with greater risk of volatility and potential for loss. You can lose part or all of the money you invest in a stock. Because of that volatility, stock investments may not be appropriate for money you count on to be available in the short term. You'll need to think about whether you have the financial and emotional ability to ride out those ups and downs as you try for greater returns.

Bonds can also help, but since 1926, their inflation-adjusted return has been less than that of stocks. Treasury Inflation Protected Securities (TIPS), which are backed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, are indexed so that your return should keep pace with inflation. The principal is automatically adjusted every six months to reflect increases or decreases in the CPI; as long as you hold a TIPS to maturity, you will receive the greater of the original or inflation-adjusted principal. Unless you own TIPS in a tax-deferred account, you must pay federal income tax on the income plus any increase in principal, even though you won't receive any accrued principal until the bond matures. When interest rates rise, the value of existing bonds will typically fall on the secondary market. However, changing rates and secondary-market values should not affect the principal of bonds held to maturity.

Diversifying your portfolio--spreading your assets across a variety of investments that may respond differently to market conditions--is one way to help manage inflation risk. However, diversification does not guarantee a profit or protect against a loss. Examples of investments include:

- U.S. stocks (growth/value, income-producing, large/midcap/small)
- U.S. bonds (various maturities, taxable/tax-free)
- Real estate (U.S. stocks/REITS, international stocks/REITS, land holdings, commercial real estate)
- Commodities (stocks and commodity futures)
- Precious metals (stocks and bullion)
- International stocks (developed/emerging markets)
- International bonds (varying maturities)
- Alternative investments (private equity, hedge funds, natural resources, and collectibles)
- Cash/cash alternatives (money market funds, CDs, money-market accounts)

All investing involves risk, including the potential loss of principal, and there is no guarantee that any investment will be worth what you paid for it when you sell.

Should I retire now at age 62 and collect Social Security benefits?

There's no right time to begin collecting Social Security benefits, but the age at which you begin receiving benefits will affect how much retirement income you have, so you should weigh the consequences carefully.

Keep in mind that if you collect Social Security before your full retirement age, your benefit will be permanently reduced. Depending on the year you were born, you'll receive between 25 and 30 percent less per month if you collect benefits at age 62 than if you wait until full retirement age to begin collecting benefits. However, this doesn't necessarily mean that collecting benefits at age 62 is unwise. In fact, unless you live to an especially old age, you may actually end up with more money if you start collecting Social Security benefits at age 62 than if you wait until full retirement age, because you'll receive more benefit checks.

However, there are also good reasons to wait until full retirement age (or beyond) to start collecting benefits. For example, if you work full-time past age 62, you'll have the opportunity to increase your eventual retirement benefit, particularly if you are in your peak earnings years, because your benefit will be figured using your 35 highest earnings years. Additionally, if you'll barely scrape by after you retire, you may want to receive as much as possible from Social Security each month. If you can wait past full retirement age to begin collecting benefits, you will receive delayed retirement credits (up until age 70) that will permanently increase your benefit.

Other things to consider include whether other people will be eligible to receive benefits based on your work record, your eligibility for Medicare, your estimated life expectancy, and taxes. The Social Security Administration (SSA) has several online benefit estimators available at ssa.gov that can help you make an informed decision, and you can sign up at the SSA website for a *my* Social Security account so that you can view your online Social Security Statement. Your statement contains a detailed record of your earnings, as well as estimates of retirement, survivor, and disability benefits. If you're not registered for an online account and are not yet receiving benefits, you'll receive a statement in the mail every year, starting at age 60. You can also talk to an SSA representative by calling (800) 772-1213 if you have questions.

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