Catching Up to a Successful Retirement Plan

Visit cioninvestments.com for more information.

How much do you need for retirement? Well, investment research firm Morningstar has a handy but somewhat scary stat: $1.18 million. Using average annual returns of 6 percent and pegging inflation at 2.5%, Morningstar calculates that's the amount of savings needed to achieve $40,000 per year for 30 years.

IF YOU'RE OVER 50 AND UNDERINVESTED, THE IRS CAN HELP

According to investment management firm Fidelity, in the first quarter of 2019, Americans with 401(k) plans aged 50-59 had on average $174,100 saved. That $800K shortfall sounds like an impossible journey to cover before retirement. But there is a way to get there, thanks to what the IRS calls the "Catch-Up" contribution. Employees 50 and over are allowed to contribute an additional $6,000 per year to a 401k plan. That additional money invested over time has a significant impact on the total value of a retirement plan invested from age 50-70.

A CLOSER LOOK – OUR PARAMETERS

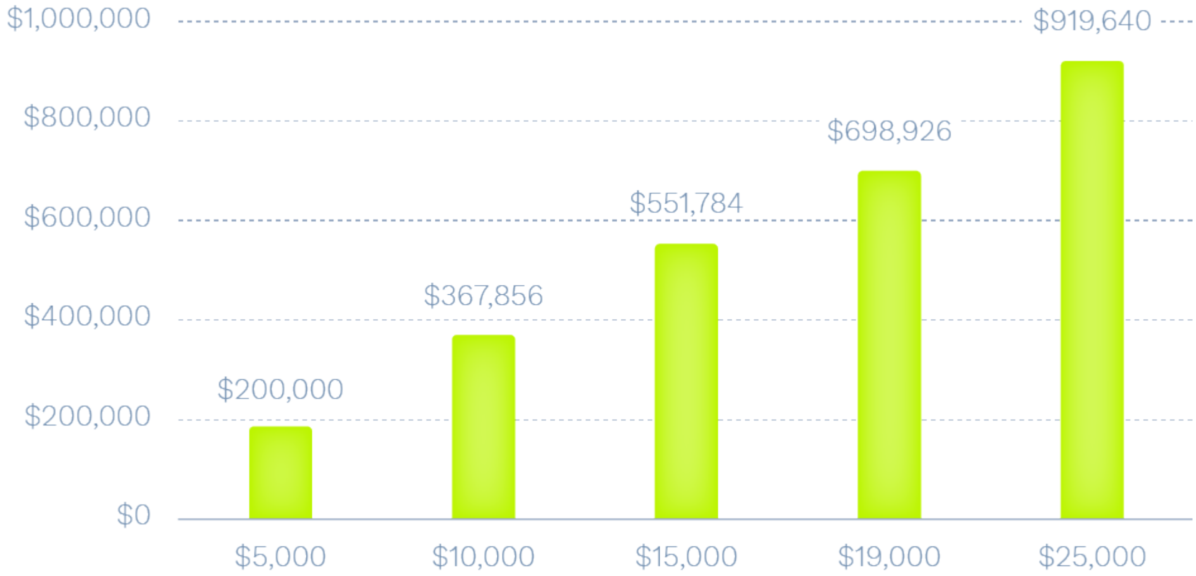
To make it easy to see the impact of retirement savings, we've based our calculations on an annual salary of $100,000, and for all calculations, we are assuming retirement at 70 years old to increase both income, savings and Social Security benefits. We've looked at the impact that different levels of savings have on your plan over time, assuming a 6 percent annual return rate. The maximum level of allowed contributions is set annually by the IRS and tends to increase every year, but we've kept it stable at the current rate of $19,000 per year, plus the $6,000 catch up.

THE IMPORTANCE OF CATCHING UP

As can be seen in Chart 1, a $5,000 contribution results in retirement savings of $183,928 over 20 years. However, the maximum gets you to $698,926 – and the max plus the "catch-up" brings you to $919,640.

Chart 1: Savings Rates Matter – A Lot

Comparison of Annual Contributions and 401(k) Balances, Cumulative Over 20 Years



Source: CION Investments

WAIT, TAXES CAN BE GOOD NEWS?

The other side to our 401(k) contribution story is the tax impact. Taking $25,000 per year (the maximum contribution of $19,000 plus the $6,000 catch-up) out of disposable income and putting it to work in savings can seem like a big sacrifice. However, since traditional 401(k) contributions are made with pre-tax dollars, the tax savings can be substantial. Taxes on traditional 401(k) contributions are deferred and paid during retirement, when lower income can result in a lower tax bracket.

To learn more about Retirement Planning, please contact your financial professional.