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**PAYROLL**

## 6 Retirement Tips for Generation X

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Mark Thomas • Nov. 20, 2019



Generation X, born from 1965 to 1980 (ages 39-54), between the Baby Boomers and Millennials, is often referred to as ‘America’s neglected middle child.’”

Just as Gen X was getting started on their careers, enjoying home ownership and beginning to save for retirement, they were hit by the financial crisis of 2008. While their housing values and incomes have recovered, they have the highest average debt of any generation, \$134,323 (national average, \$93,446).

Consider these statistics concerning Gen X:

- 34% have zero retirement savings
- 29% expect to live off their Social Security benefits
- 26% have more than \$10,000 credit card debt
- Their median retirement savings is \$69,000

How much would a 40-year old CPA with \$69,000 in their 401(k) need to put away to retire? With 20 years' experience, it's not unreasonable to expect them to be earning \$100,000 a year. If they put 16% of their income annually into their 401(k), with an average rate of return of 7%, at age 65 it would be worth \$1.42 million. If their employer contributes to the plan, it will be worth over \$1.62 million.

Will it be enough to retire comfortably 25 years from now in 2044? Recent articles suggest that you need to save *16.4 times your final salary* for retirement. Which puts into question our example above. Setting aside 16% of your salary is a lofty goal. Is it enough?

## **What can Gen Xers do to ensure a comfortable retirement?**

Unless you work for the government there just aren't many pensions anymore so your retirement is built on two things: Your savings and Social Security.

### **Get Rid of Your Debt:**

To get the most out of your 401(k), take care of your debt first. You can't retire with a lot of debt and you're not going to have the income to sustain it. The number one tool you can use to manage debt is a budget.

### **Create a Budget:**

There are some great apps available, like Mint, that can help put a budget together. The key is to track where you're spending your disposable income for six months. You buy coffee at Starbucks every day, \$150 on concert tickets, \$100 on jeans...

You may be surprised to learn where your money is going. Your budget app can help show you where you need to make sacrifices. A simple change in your spending

habits can help you to pay down your debts. As soon as you get the debt out of your budget it frees up money that you should be saving.

### **Max Out Your 401(k):**

You want to take advantage of the compounding of tax deferred growth the 401(k) provides. Put as much into that as you possibly can. If you're under age 50, the max you can put in in 2019 is \$19,000.

- The \$19,000 limit does not include employer contributions.
- There is a \$56,000 annual limit on combined employee and employer contributions.
- If you are 50 or older you can kick in an extra \$6,000 catch-up contribution for a total of \$25,000.

If you can max out your 401(k), that's the best thing you can do to get on track. For most people that's going to require substantial budgeting and sacrifice to get there. Hopefully, your spouse can do the same.

### **Review your Social Security Benefits:**

Visit the Social Security administration website ([ssa.gov](https://ssa.gov)) and get your statement. Then you can begin to plan what age you want to retire.

The longer you defer Social Security the more money you'll get. It makes a big difference. If you start taking money at 62 you're going to receive a substantially reduced monthly income.

### **Explore Online Financial Tools:**

Most financial institutions and large companies have an online retirement center where you can enter your information and it'll project your 401(k)'s growth. If you have 15 years more to work, it'll show you how much retirement savings you're going to accumulate, plus your Social Security payment. It'll start to give you some comfort that you're on target.

### **Create Financial Objectives:**

As a CPA, you might be financially savvy, but if debts are causing you anxiety and you don't know what to do about it, create a budget and stick to it. Many people have difficulty because they don't know how they're spending their money.

Understanding your finances, having a budget, having financial objectives—that's how you create a stress-free financial life.

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