made up of about 65 million Americans—could be in for a tarnished retirement experience.

Aug. 31, 2023

By Al-Nesha Jones, CPA, MBA

Generation X—aka the Sandwich Generation, Latchkey Kids, Baby Busters, and even the Forgotten Generation—will soon be approaching retirement age. They're about 42 to 58 years old, and likely caring for their adult children and aging parents. They've lived through the early 1980s recession, Black Monday (1987), the Savings and Loan Crisis (1980s–1990s), the Dot-Com Bubble (late 1990s–early 2000s), the 2008 Great Recession, and most recently the global pandemic.

Gen Xers are likely paying college tuition and eldercare costs simultaneously, which

fixed benefit based on the employee's years of service and salary. Instead, many employers shifted toward defined contribution plans such as a 401(k) plan where the benefit depends on the amount of money contributed and investment returns. What we're now realizing is that the transition from pension to 401(k) didn't come with the education that most needed to understand how to ensure they're fully prepared for the retirement phase of life.

According to a July 2023 report from the National Institute of Retirement Security, only 55% of Gen X workers participate in their employer-sponsored retirement plan, while 40% have little to no retirement savings at all.

What trouble does this present for those who are not prepared?

Insufficient retirement savings can make elder poverty and the need for financial assistance from younger family members a harsh reality for millions. This could also mean an uptick in the number of seniors needing to rely on social programs such as food stamps and affordable housing vouchers. Many Gen Xers may find themselves needing to delay retirement or starting an encore career that could mean they'll be working well into what should be their golden years.

How can advisory help?

According to a recent Prudential Pulse Survey, 58% of Gen Xers expect to rely on Social Security as their primary source of income, but by 2033, Social Security trust funds are expected to be depleted and may only be able to pay out 77% of benefits. As bleak as this sounds for a generation once known as the very colorful MTV generation, all hope is not lost.

Here are 10 ways you can help position your Gen X clients for the brightest possible retirement through an advisory relationship.

1. **Add the retirement conversation to your advisory agenda:** Often, clients don't

bridge the gap, helping them understand how they can maximize their savings efforts and work strategically toward their goals. Remember: they have until the annual Oct. 15 deadline to contribute to an IRA, so use that time wisely.

3. **Toss on the tax savings:** Quantify for your client how increased pre-tax retirement contributions (401(k) and/or IRA) could decrease their overall tax liability. You can use a tool such as Intuit Tax Advisor to calculate the impact quickly and easily, and present it in an easy-to-understand format.
4. **Give them baby steps:** If they're concerned about how to juggle other expenses while saving for retirement, don't let the conversation end there. Suggest they increase their retirement contribution amounts each year automatically or when they get an annual increase, even if just by 1%. Something will always beat nothing.
5. **Avoid unnecessary penalties and interest:** Money spent on penalties and interest is money wasted. Even if it's a few hundred dollars per year, that adds up in the long run. Advise your client throughout the year on strategies such as estimated tax payments, early withdrawals from retirement accounts, and the max income limits to qualify to contribute to a Roth IRA. Doing any of these without proper planning could result in interest or penalties, and take away from funds that could be used to invest in retirement.
6. **Take advantage of catch-up contributions:** The 401(k) contribution limit for 2023 is $22,500 for employee contributions, but if your client is 50+ years old, they're eligible for an additional $7,500 in catch-up contributions, making their total employee contribution limit $30,000. Similar catch-up contributions are also available for IRAs. If your client is over age 50, they can contribute an additional $1,000 to their IRA, making the max contribution $7,500.
7. **Encourage low-income taxpayers to contribute:** In 2023, the Saver's Credit is available for low- and moderate-income workers; income limits are $73,000 for married couples filing jointly, $54,750 for heads of household, and $36,500 for singles and those that are married filing separately. The credit is worth up to

$1,000 for eligible taxpayers, and $2,000 for those who are married filing jointly.

IRA to save for retirement can contribute as much as $66,000, or up to the lesser of 25% of their business earnings or compensation. If your client struggles to make large one-time contributions, help them to budget for smaller contributions based on how they earn income. We highly recommend QuickBooks® Checking to our business clients since they're already using QuickBooks Online. They can create envelopes to set aside funds for retirement; they're earning the money, and during tax time, we confirm their max contribution amount and then they can transfer it to their SEP IRA. These contributions can be made up until Oct. 15 if an extension has been filed.

9. **Equip your client to make informed decisions:** An advisory relationship promotes proactive conversation. Encourage your client to connect with you to evaluate the impact of borrowing or withdrawing from their retirement accounts before they make a decision. Help them understand the impact of early withdrawal penalties, taxes, and what could happen if they were to lose employment with an outstanding loan from their retirement account.

1. **Explore all options:** Not everyone may feel confident about saving for retirement immediately, especially if they have major concerns about debt. If that's the case, discuss other alternatives with your clients, including working past retirement age, reducing their cost of living to increase their ability to save, creating and sticking to an effective debt repayment plan, and delaying Social Security benefits (if possible) to age 70 to max out their monthly benefits. If they currently are receiving tax refunds, help them to modify their withholdings to shift those funds to retirement savings. They'll quickly see the value in having you on their team as an advisor when you help them explore other alternatives to reach their goals.

Advisory wins

The retirement strategy conversation is one that extends far beyond tax

sustainable businesses. ASE Group specializes in making the dollars make sense through solid recordkeeping, proactive tax planning, tax preparation, and year-round advisory support for entrepreneurs in New Jersey, New York, Connecticut, and Pennsylvania. She was recognized as a 2021 CPA Practice Advisor "40 Under 40" Professional. Prior to forming ASE Group, Al-Nesha successfully managed teams with Ernst & Young and Prudential Financial in audit, assurance, and financial reporting roles. In addition Al-Nesha is a member of the Intuit® Tax Council, a member of the Intuit Trainer/Writer Network, an inaugural member of the CHIP Professionals Council (CHIP is bridging the gap between consumers of financial products and financial professionals of color), a member of the National Society of Black CPAs and the National Association of Black Accountants, a mentor at her alma mater, Montclair State University, president of the 501c3 organization Black-Owned Everything, and also teaches a college-level bookkeeping course. Follow Al-Nesha on Twitter @AlNeshaJ_CPA.

Advisory • Benefits • CAS • Payroll