00:00:12:20 - 00:00:37:04

Speaker 1

Welcome. My name is Andrew Baron, and this is “Well... It Depends!” The podcast where I present the pros and cons of financial decisions so that you, the audience, feel better informed when you are confronted with these decisions in your own life. In this episode, I ask the question, can I save too much?

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Speaker 1

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Speaker 1

Getting into it, can I save too much? Well... It Depends! This is the opposite topic of what you'll hear many financial planners talk about. You're probably used to hearing about maxing out your accounts and pinching pennies. But I want to talk about saving too much. You might be thinking to yourself, Andrew, what are you talking about? You work in wealth management. Isn't the point to accumulate wealth?

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Speaker 1

Yes. For many people, accumulating wealth over a lifetime can be sort of a goal. But the real question is, how are you saving? Having cash is psychologically the most comfortable for many people. It's easily spendable and you more or less know how much it's worth. Or you think you do. With interest rates rising, the Federal Reserve just yesterday bumped up rates again.

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Speaker 1

You might think that cash in an interest bearing account is a safe spot to be in. But why are interest rates going up? Because inflation is high, and the Federal Reserve is trying to gain control and stabilize prices. So even though your cash is earning interest, your buying power is going down. So those dollars are slowly worth a little bit less than when you originally saved them.

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Speaker 1

Don't get me wrong, an emergency savings account is a fundamental pillar in personal finance. You should have 3 to 6 months of spending in cash in this account, maybe a bit more of you have volatile income from an unsteady job. Cash is a great asset to have for anything you will or might purchase in the next 12 months, including potential emergencies.

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Speaker 1

Anything above this, and you start to miss out on potential gains from investments you could have made without jeopardizing your financial security. We call this opportunity cost and why we look to have account diversification. Okay, well, what about retirement accounts? Saving for retirement is important. You might be thinking, therefore, I should be funneling as much as I can into my retirement accounts.

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Speaker 1

While it is true that many Americans are not saving enough for retirement, the blanket advice that you should max out your 401K is not necessarily correct. To use an analogy, you may have heard the term house poor. This is used when referring to someone who perhaps has a really nice home, but the cost of maintaining the property, taxes and heating and cooling is really more than the individual can handle.

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Speaker 1

And instead of having other things such as going on vacation, having nice dinners, spoiling the grandkids, they're constantly putting money into their house. Likewise, you can be retirement account poor. If you're under age 59 and half or still working, you can't readily get at your retirement accounts. There are some exceptions, but we won't get into that. If all of your wealth is inaccessible because it's in these retirement accounts, you might not be able to do the things you want to do.

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Speaker 1

Luckily, we have taxable brokerage accounts. While these don't have the tax benefit of retirement accounts, you can buy many of the same investments for your money to grow, and you can use it at any time without the penalties associated with retirement accounts. The goal of life is not to get rich for the sake of getting rich. This is why I talk to clients about living within your means.

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Speaker 1

Living within your means includes preparing for the future, but it also includes enjoying what you have today. Leaving an inheritance to your children and grandchildren is a noble value, but that should not be the goal in and of itself. You have a right to enjoy your money while you're alive, and that can mean making gifts now so you can see the benefits.

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Speaker 1

Time is also an asset, one that we are all slowly losing. To recap, a good target is to have in your savings account about 3 to 6 months of spending. But having too much cash, you suffer the opportunity cost of potential gains.

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Speaker 1

Saving for retirement is important, but because of the regulations, these sources of wealth may be inaccessible for younger workers, meaning under age 59 and a half. Having account diversification such as having a taxable brokerage account in addition to retirement accounts, can provide assets when you need them and grow at sufficient rates, assuming the funds are properly invested.

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Speaker 1

Ultimately, you want to live within your means, above your means, says you're spending too much and living too far below your means is sort of a personal opportunity cost. You miss out on things you could have done because you were focused on saving. So to answer the question, can I save too much? Well... It Depends!

*Speaker 1 = Andrew Baron, CFP®, Enrolled Agent, Associate Advisor