00:00:12:12 - 00:00:38:18

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, am I saving enough?

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But before we begin a short disclaimer. This is being recorded on November 29th, 2022. The contents of this podcast are strictly for informational purposes only, and nothing said should be taken as investment tax or legal advice. Any strategies discussed may not be suitable for listeners specifically, and so we strongly encourage consulting with your advisor before implementing any strategies to ensure they meet your individual objectives.

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Speaker 1

Getting into it. Am I saving enough? Well... It Depends! The first thing to focus on is having a sufficient savings account. This means having three to six months of cash readily available. We use three to six months relative to your income because this amount should give you sufficient time to get back on your feet if something were to happen. For those early in their career, or who are recently devastated by an emergency, who have depleted the reserves, building that back up can be a bit of a challenge.

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Targeting between five and 10% of your annual income to rebuild those reserves is a great goal. Besides your primary banking account, this account is the most important to fund, especially if you don't have that three to six months supply yet. Beyond that, you want to think about funding your retirement for the future. The single most important thing is that you are contributing.

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Just the habit of saving consistently is very important. In addition, you also want to make sure that every year or as you get pay raises, you're increasing your contribution rate so that over time it increases substantially. For those who have employer matching contributions, this is a great thing to take advantage of and is essentially additional compensation. Ultimately, you could want to get to 20 to 25% of your annual income going towards retirement.

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Speaker 1

For those looking to retire early, meaning before age 65, they may even consider contributing more than this. Okay, so if we have our baseline, what's next? You also want to consider debt. Anything with an extremely high interest rate, like double digits, can be hard to overcome. So getting control of this and eliminating debt should be a priority for you.

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Speaker 1

Okay, so if we have our savings, we have a retirement plan, we have our control on debt. Are we all set now? Well... It Depends! Typically, as our income and assets increase, we also have a lifestyle drift and we change our priorities and our wants.

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Speaker 1

So, for example, you may not have had kids when you first started and now you do and are prioritizing for their future, such as college, may be something you want to save for. In addition to lifestyle drift, as our peers want and do other big things, we may want to participate in that, such as additional houses, fancy cars, or expensive around the world trips. These may not be something you can afford to do every day, but you can save and make them part of your financial plan.

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Speaker 1

To recap, ultimately there's a hierarchy of financial needs with cash flow and our basic bank account and savings account at the bottom and working our way up to our ultimate dreams and wants. It's important to fund all the steps and not skip them, although we can fund some steps simultaneously, such as contributing to an emergency savings account while also saving in our retirement plans.

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Speaker 1

So to answer the question, am I saving enough? Well... It Depends!

Speaker 1 – Andrew Baron, CFP®, EA