00:00:09:13 - 00:00:51:05

Speaker 1

Welcome, my name is Andrew Baron and this is Well… It Depends! The podcast where I address financial decisions that can't be answered by a simple yes or no. In this episode, I ask the question, when is it okay to stop making retirement contributions? But before we begin a short disclaimer, this is being recorded on July 30th, 2024. The contents of this podcast are strictly for informational purposes only, and nothing said should be taken as investment, tax or legal advice.

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Speaker 1

It's important to consult with a professional before making any financial decisions as the strategies discussed may not be suitable for you specifically.

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Speaker 1

Getting into it. When is it okay to start making retirement contributions? Well… It Depends! This question may sound surprising to some. After all, we're told to save as much as we can for retirement, but there are circumstances where pausing or stopping your retirement contributions can make sense.

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Speaker 1

Let's explore the different scenarios and tradeoffs involved.

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Speaker 1

First, let's talk about achieving your retirement goal. If you've diligently saved over the years and you find that you've reached your retirement savings target, you may consider stopping contributions. However, it's crucial to reassess your goals periodically. Factors such as inflation, lifestyle changes or unexpected expenses could alter the amount of money you need.

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So even if it seems like you have enough saved, it depends whether your target remains accurate over time.

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Speaker 1

Another scenario is if you're carrying high interest debt typically shown in credit card balances, the interest you're paying on that debt might outweigh the benefits of continuing to contribute to your retirement account. In this case, it could make sense to redirect your contributions towards paying down the debt first.

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Again, it does depend on the total interest rates, the amount of debt you have, as well as your overall financial situation. Having a robust emergency fund is crucial. If you're lacking in this area, it might be wise to pause your retirement contributions temporarily so that you can build up a sufficient emergency cushion. After all, life's uncertainties can lead to unexpected expenses, which may require liquid funds.

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Speaker 1

Life changes, such as buying a home, having a child or starting a business can also impact your decision. These events may require significant upfront costs, and you might need to divert funds away from retirement temporarily. However, it's essential to have a plan to resume contributions as soon as possible. So it depends on the emergency and the magnitude of life’s situations.

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Speaker 1

Tax considerations can also play a role. For instance, if you're in a lower tax bracket now, but expect to be in a higher margin later, you might pause contributions so that you can save an after tax dollars. There is some nuance with this rule, so it depends on talking to a tax or financial adviser to know specifically if this helps you.

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Speaker 1

To recap, as we've explored the question of when to start making retirement contributions doesn't have a straightforward answer. It depends on financial goals, debt situation, emergency fund, your life changes as well as tax considerations. The key takeaway is that these decisions should be made thoughtfully with a full understanding of the tradeoffs involved. So, to answer the question when is it okay to start making retirement contributions?

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Speaker 1

Well… It Depends!

Speaker 1: Andrew Baron, CFP®, EA